

DOCUMENT RESUME

ED 101 044

UD 014 736

TITLE Studies in Public Welfare, Paper Number 16: A Model Income Supplement Bill.
INSTITUTION Joint Economic Committee, Washington, D.C.
PUB DATE 20 Dec 74
NOTE 67p.
AVAILABLE FROM Superintendent of Documents, U.S. Government Printing Office; Washington, D.C. 20402 (\$0.80)

EDRS PRICE MF-\$0.75 HC-\$3.15 PLUS POSTAGE
DESCRIPTORS Economically Disadvantaged; Economic Disadvantage; Family Income; Family Resources; *Federal Legislation; Federal Programs; *Finance Reform; *Guaranteed Income; Income; Low Income; Policy Formation; Poverty Programs; *Public Policy; *Welfare; Welfare Problems

ABSTRACT

This volume presents a model bill which translates the recommendations of the Subcommittee on Fiscal Policy, as presented in its report entitled "Income Security for Americans," into legislative language. Accompanying the model bill is a section by section description and rationale. The basic goal of an income maintenance system is to help persons with low income. But the compelling need for reform now is to rationalize, systematize, and coordinate programs already in operation. The purpose of this bill is to replace or rationalize the many public programs offering support based on family and individual income by establishing, as a part of the income tax, a new Federal system of tax credits and allowances. This new system is designed to increase the equity, strengthen the administration, and improve the adequacy of income maintenance programs, and to restore desirable social and economic incentives to the Nation's system of income support. The proposed program, to begin in 1977, consists of two parts: modest cash grants related to income for the poorest and tax relief for low- and middle-income workers. Several current welfare programs (principally aid to families with dependent children and food stamps) will be scrapped in favor of a comprehensive system of tax credits and modest cash allowances for the poor administered by the Internal Revenue Service. (Author/JM)

93d Congress }
2d Session }

JOINT COMMITTEE PRINT

JAN 13 1975

STUDIES IN PUBLIC WELFARE

PAPER NO. 16

A MODEL INCOME SUPPLEMENT BILL

A STAFF STUDY

PREPARED FOR THE USE OF THE

SUBCOMMITTEE ON FISCAL POLICY

OF THE

JOINT ECONOMIC COMMITTEE

CONGRESS OF THE UNITED STATES

U.S. DEPARTMENT OF HEALTH,
EDUCATION & WELFARE
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DECEMBER 20, 1974

Printed for the use of the Joint Economic Committee

U.S. GOVERNMENT PRINTING OFFICE

WASHINGTON : 1974

42-365

For sale by the Superintendent of Documents, U.S. Government Printing Office
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(11)

LETTERS OF TRANSMITTAL

DECEMBER 12, 1974.

To the members of the Joint Economic Committee:

Transmitted herewith is a volume entitled "A Model Income Supplement Bill." It presents a model bill which translates the recommendations of the Subcommittee on Fiscal Policy, as contained in its report entitled "Income Security for Americans," into legislative language, and provides a brief section by section description of and rationale for the bill.

This bill does not necessarily carry the endorsement of members of the Subcommittee on Fiscal Policy.

WRIGHT PATMAN,
Chairman, Joint Economic Committee.

DECEMBER 10, 1974.

HON. WRIGHT PATMAN,
*Chairman, Joint Economic Committee,
U.S. Congress, Washington, D.C.*

DEAR MR. CHAIRMAN: Transmitted herewith is a volume entitled "A Model Income Supplement Bill." This volume includes a model bill based on the recommendations of the Subcommittee on Fiscal Policy, as contained in its report entitled "Income Security for Americans," and a description of the bill.

Specifications for title I of this bill were provided primarily by James R. Storey, former staff member; for title II, by Irene Cox, former staff member; with general advice and assistance on program coordination by Robert I. Lerman, former staff member, and under the general direction of Alair A. Townsend, research director. The overview and description were prepared by James R. Storey, Alair A. Townsend, and Katharine H. Conroy.

This bill does not necessarily carry the endorsement of any members of the Subcommittee on Fiscal Policy other than myself.

MARTHA W. GRIFFITHS,
Chairman, Subcommittee on Fiscal Policy.

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OVERVIEW OF MODEL BILL

This volume presents a model bill which translates the recommendations of the Subcommittee on Fiscal Policy, as presented in its report entitled "Income Security for Americans," into legislative language. Accompanying the model bill is a section by section description and rationale. No attempt is made here to duplicate the subcommittee report's extensive documentation of the problems in existing programs and the rationale for each feature of the recommended plan. Rather, the following is simply an overview of the bill to aid in reading it and a brief description of its component parts.

The basic goal of an income maintenance system is to help persons with low income. But the compelling need for reform now is to rationalize, systematize, and coordinate programs already in operation.

The purpose of this bill is to replace or rationalize the many public programs offering support based on family and individual income by establishing, as a part of the income tax, a new Federal system of tax credits and allowances. This new system is designed to increase the equity, strengthen the administration, and improve the adequacy of income maintenance programs, and to restore desirable social and economic incentives to the Nation's system of income support. In conjunction with the supplemental security income (SSI) program for the aged, blind and disabled, it will cover all low-income persons. It avoids the penalties on work, marriage, and family responsibility that the old programs perpetuate. It will no longer be possible, for example, for persons who do not work to be made better off by benefits than those who do work.

The Federal Government will fund and operate this program. The bill will end the practice of letting States decide how many Federal dollars will flow to the poor in each State. The distribution of income is a national problem and the bill approaches it in this way. By establishing Federal administrative responsibility, reliance on variable State welfare operations will be terminated. The use of Federal income records will assure a higher level of program integrity at lower cost.

The proposed program, to begin in 1977, consists of two parts: modest cash grants related to income for the poorest (called ABLE grants—allowances for basic living expenses) and tax relief for low- and moderate-income workers. In the tax system, the \$750 per-person deductions from income for personal exemptions will be replaced with \$225 per-person refundable tax credits, which will be deducted from tax liability with excess credits paid to the tax filer(s). Several current welfare programs (principally aid to families with dependent children—AFDC—and food stamps) will be scrapped in favor of a comprehensive system of tax credits and modest cash allowances for the poor administered by the Internal Revenue Service.

The result of this bill will be that people with little or no private income will receive full allowances and tax credits and pay no income tax. Those with very small incomes will still receive full credits but

reduced allowances. Persons in the modest- and middle-income range will not be eligible for allowances, but they will pay less income tax than they do now. Some taxpayers in high-income brackets will owe more taxes than now because the tax credits are less valuable to them than personal exemptions.

By having a universal per-capita tax credit upon which to build, the allowances based on need are lower than they otherwise would have to be. This permits a reduction in the number of people with whom the administering agency otherwise will have to deal on a monthly basis, since families with modest income, receiving credits but not allowances, will be reimbursed through the regular tax withholding and annual tax return. Moreover, since the tax credit reduces the tax burden on those with moderate incomes, it will aid inflation-squeezed workers while it simultaneously helps to rationalize existing welfare programs. Millions of modest- and middle-income families are pushed into higher tax brackets simply because their wages are increased to offset inflation. As a result, their real incomes are falling.

ABLE grants will be set at the following levels:

Members of unit:	Annual allowance
(a) Married couple filing jointly.....	\$2,050
(b) Head of household filer (as defined by IRS).....	1,225
(c) Single filer.....	825
(d) Dependent age 18 or over.....	825
(e) First and second child in filing unit, each.....	325
(f) Third, fourth, fifth, and sixth dependent child, each.....	225
(g) Seventh and successive dependent children.....	0

In each case, tax credits of \$225 per person will be added. Thus, the total value of grants and tax credits will be \$3,600 for a penniless two-adult family of four, \$3,000 for a penniless one-adult family of four.

These benefit amounts are maximums and they will go to comparatively few families without earnings or other private income, since benefits will be reduced gradually as income rises. The benefit schedule has been carefully constructed to minimize incentives for family splitting or nonmarriage in low-income families. Per-child benefits in the allowance system also are tailored downward as family size increases so as not to encourage large families. Making two-parent families eligible for income supplementation will not automatically make them more stable. But supplements to low earnings will reduce the most severe economic pressures that plague families, and desertion no longer will be the only means some fathers have to increase their families' cash income.

Benefit amounts are not designed to provide "adequate" levels of living for several reasons. First, comparatively few families have no income or income-producing opportunities. Even in today's slack job market many low-wage jobs are available that, in combination with benefits, yield more nearly adequate total incomes. The program is designed to build on private efforts, rather than substitute for them. Thus, the program fits the vast majority of cases rather than being stretched to provide adequate benefits for the worst possible cases of destitution. For most persons, the program will provide only a minority share of total income, since most beneficiaries will be low- and modest-income working families. For example, a one-earner, two-parent family of four with earnings of \$4,000 would receive supplementation totaling \$1,714.

Second, the basic Federal allowances and tax credits will help even those with limited capacity for self-support. Persons with greater needs can be aided by SSI and other programs for the disabled, or can be helped by States and localities on a case-by-case basis.

Third, costs and caseloads rise rapidly as levels of allowances and/or credits are increased. Costs constrain benefit levels on the one hand, while the goal of eliminating food stamps and Federal financial participation in AFDC necessitates benefits of certain levels on the other.

Allowances will be reduced by 50 cents for each earned dollar, net of social security taxes. For certain types of earners the benefit-loss rate will be even lower and the net gain from work higher. There are two sets of circumstances that require special consideration: two-earner families and one-parent families headed by a worker. Many low- and moderate-income families have two earners. The second earner's wages are a vital contribution to the family's income. Work expenses for such families are higher than for one-earner families, and if the second earner is a spouse, the family must forego the value of his or her home labor as well. These considerations apply even more strongly to the working mother who is raising children alone. Hence, a standard employment expense deduction will be given to two-earner households and to one-parent households in which that parent works, in lieu of complex itemized deductions for work expenses and the current child care deduction allowed under the income tax.

The standard employment expense deduction for two-earner families, including those without children, is also a significant tax reform measure, since it will reduce or eliminate the marriage penalty that many couples now face under the income tax. Under the current tax-rate schedules for single individuals and married couples, a man and woman who both work full time often find that their taxes are higher if they marry and file jointly than if they remain single. For example, if a woman who earns \$2,000 a year marries a man who earns \$3,000, together they will pay \$184 more in Federal income tax than if they had remained single.

The moderate initial benefit-loss rate, coupled with the deduction of social security taxes and the standard employment expense deduction, will have three positive effects: It will provide significant supplementation of low earnings; maintain a reasonable income differentiation between workers and nonworkers and between those who work more or less; and keep work disincentives to a minimal level.

Tax relief will be granted to families and individuals in four ways. First, the rebatable tax credits alone will reduce tax liabilities for many. Second, the standard employment expense deduction will result in tax savings for many persons who do not now qualify for the child care and household expense deduction or who do not itemize their expenses. Third, all recipients of ABLE grants will be exempt from taxation. Fourth, a special alternative tax computation for individuals and families in a portion of the income range above ABLE eligibility will reduce tax liabilities. This provision, designed to smooth the transition from ABLE recipient to nonrecipient status, has the effect of increasing tax savings for many taxpayers beyond levels produced by the tax credit. Many low- and modest-income workers will experience income gains, not by being "welfare" recipients but rather through the tax system.

Tables 1 and 2 below illustrate benefits and taxes for one-parent and two-parent families. Table 3 and chart 1 compare after-tax income under current law and under the model bill for families of two parents and two children, where one parent works full time.

TABLE 1.—*Benefits and taxes under the model bill for a mother and 3 children at varying earnings levels*

Annual earnings	Federal income tax liability ¹	Tax credits	Net Federal income tax liability ²	Social security tax ³	ABLE grant	Net cash income ⁴
\$0-----	0	\$900	+ \$900	0	\$2, 100	\$3, 000
\$500-----	0	900	+ 900	\$29	1, 914	3, 285
\$1,000-----	0	900	+ 900	58	1, 729	3, 571
\$1,500-----	0	900	+ 900	88	1, 644	3, 956
\$2,000-----	0	900	+ 900	117	1, 358	4, 141
\$2,500-----	0	900	+ 900	146	1, 173	4, 427
\$3,000-----	0	900	+ 900	176	988	4, 712
\$4,000-----	0	900	+ 900	234	617	5, 283
\$5,000-----	0	900	+ 900	292	246	5, 854
\$6,000-----	⁵ 124	900	+ 776	351	0	6, 425
\$7,000-----	⁵ 495	900	+ 405	410	0	6, 995
\$8,000-----	907	900	7	468	0	7, 525
\$9,000-----	1, 073	900	173	526	0	8, 301
\$10,000-----	1, 260	900	360	585	0	9, 055
\$15,000-----	2, 315	900	1, 415	772	0	12, 813
\$20,000-----	3, 695	900	2, 795	772	0	16, 433
\$25,000-----	5, 325	900	4, 425	772	0	19, 803

¹ Based on the standard deduction but with no low-income allowance. Personal exemptions are replaced by \$225 per person tax credits.

² Numbers with plus signs indicate net payments to, rather than from, taxpayers because of tax credits.

³ Social security taxes shown are based on the current tax rate and wage base.

⁴ Assuming no State supplementation.

⁵ Tax is a reduced amount from regular schedule because of provision for smooth transition from ABLE recipient to nonrecipient status.

TABLE 2.—*Benefits and taxes under the model bill for a father, mother, and 2 children at varying earnings levels*

Annual earnings	Federal income tax liability ¹	Tax credits	Net Federal income tax liability ²	Social security tax ³	ABLE grant	Net cash income ⁴
\$0-----	0	\$900	+ \$900	0	\$2, 700	\$3, 600
\$500-----	0	900	+ 900	\$29	2, 464	3, 835
\$1,000-----	0	900	+ 900	58	2, 229	4, 071
\$1,500-----	0	900	+ 900	88	1, 994	4, 306
\$2,000-----	0	900	+ 900	117	1, 758	4, 541
\$2,500-----	0	900	+ 900	146	1, 523	4, 777
\$3,000-----	0	900	+ 900	176	1, 288	5, 012
\$4,000-----	0	900	+ 900	234	817	5, 483
\$5,000-----	0	900	+ 900	292	346	5, 954
\$6,000-----	⁵ \$124	900	+ 776	351	0	6, 425
\$7,000-----	⁵ 595	900	+ 305	410	0	6, 895
\$8,000-----	⁵ 1, 066	900	166	468	0	7, 366
\$9,000-----	1, 314	900	414	526	0	8, 060
\$10,000-----	1, 490	900	590	585	0	8, 825
\$15,000-----	2, 510	900	1, 610	772	0	12, 618
\$20,000-----	3, 820	900	2, 920	772	0	16, 308
\$25,000-----	5, 340	900	4, 400	772	0	19, 788

¹ Based on the standard deduction but with no low income allowance. Personal exemptions are replaced by \$225 per person tax credits.

² Numbers with plus signs indicate net payments to, rather than from, taxpayers because of tax credits.

³ Social security taxes shown are based on the current tax rate and wage base.

⁴ Assuming no State supplementation.

⁵ Tax is a reduced amount from regular schedule because of provision for smooth transition from ABLE recipient to nonrecipient status.

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TABLE 3.—After-tax income under current law and under the model bill for 4-person families at different earnings levels:
Families of 2 parents and 2 children; 1 parent works full time

	A		B		C		D	
	Current	Proposed	Current	Proposed	Current	Proposed	Current	Proposed
Earnings.....	\$0	\$0	\$3,000	\$3,000	\$5,000	\$5,000	\$7,500	\$7,500
Allowances.....	(¹)	2,700	(¹)	2,700	(¹)	2,700	(¹)	2,700
Offset income ²	(¹)	0	(¹)	1,500	(¹)	2,500	(¹)	2,700
ABLE payments.....	(¹)	2,700	(¹)	1,200	(¹)	200	(¹)	0
Tax liability ⁴	0	0	0	0	98	0	484	31,050
Credits.....	0	900	0	900	0	900	0	900
Net tax.....	0	3 (900)	0	3 (900)	98	3 (900)	484	150
Net income.....	(¹)	3,600	1 3,000	5,100	1 4,902	6,100	1 7,016	7,350
Gain (or loss).....	1 + 3,600	1 + 3,600	1 + 3,000	1 + 2,100	1 + 4,902	1 + 1,198	1 + 7,016	1 + 334

	E		F		G		H	
	Current	Proposed	Current	Proposed	Current	Proposed	Current	Proposed
Earnings.....	\$10,000	\$10,000	\$15,000	\$15,000	\$25,000	\$25,000	\$50,000	\$50,000
Allowances.....	10,000	10,000	15,000	15,000	25,000	25,000	50,000	50,000
Offset income ²	0	2,700	0	2,700	0	2,700	0	2,700
ABLE payments.....	0	0	0	0	0	0	0	0
Tax liability ⁴	905	1,490	1,820	2,510	4,380	5,340	14,560	16,060
Credits.....	0	900	0	900	0	900	0	900
Net tax.....	905	590	1,820	1,610	4,380	4,440	14,560	15,160
Net income.....	9,095	9,410	13,180	13,390	20,620	20,560	35,440	34,840
Gain (or loss).....	9,095	+ 315	13,180	+ 210	20,620	- 60	35,440	- 600

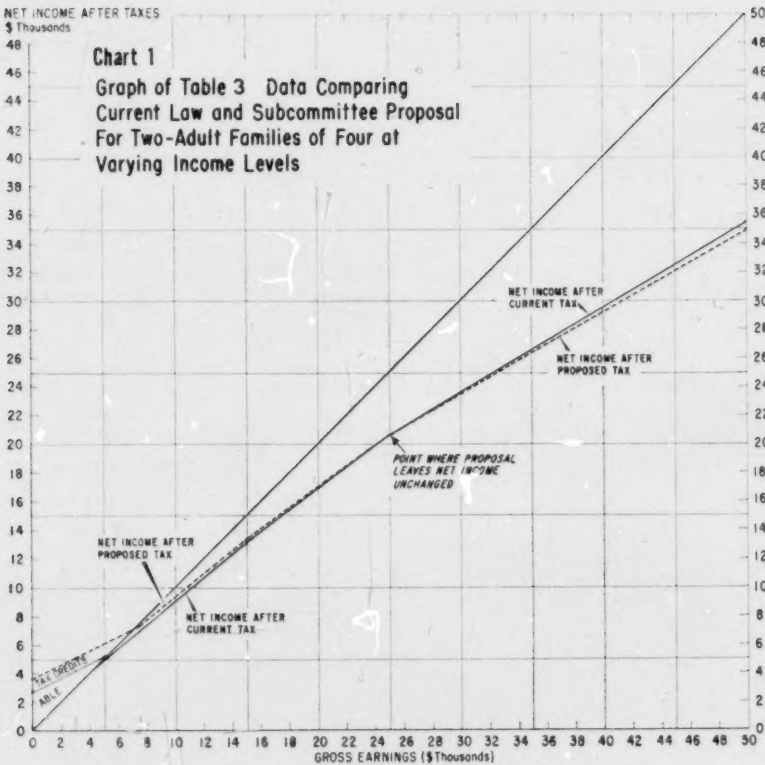
¹ Family might be eligible for AFDC or food stamps under current law, but amount would be small. ² Earnings offset allowances by 50 cents for each \$1. Not shown is the deduction from earnings of social security taxes permitted under the allowances system.

³ 50 percent of earned income exceeds gross allowances, so only that portion of income which completely offsets allowances is shown here. Thus, no ABLE payment is received. For family D, this excess offset income is \$1,050 (\$3,750—\$2,700), which is less than the

regular income tax liability of \$1,071. Thus, family D would substitute the smaller amount, against which credits are then applied.

⁴ Standard deduction of 15 percent up to \$2,000 is assumed. A family with income of \$50,000 underbroadly would itemize deductions and pay less tax.

⁵ Numbers in parentheses indicate net payments to, rather than from, taxpayers because of tax credits.



In order to achieve a smoothly functioning income maintenance system and to reduce the problems now created by program overlaps, considerable change in existing programs is necessary. These changes are outlined below. Their overall impact is to reduce inequities in treatment of persons in similar circumstances and to assure that combined benefit levels and benefit-loss rates are reasonable. Benefit levels could not cascade to unreasonably high levels, nor could the reward for work plummet.

The provisions with respect to other programs are:

- *Federal income tax.*—In addition to the conversion of personal exemptions to rebatable tax credits, the elimination of the low-income allowance, the substitution of a standard employment expense deduction for certain families in place of the current child care and household expense deduction, and the special alternative tax computation method for families above the ABLE eligibility level, the tax code will be amended to enable the In-

ternal Revenue Service to administer both grants and tax credits.

- *Food stamps.*—The program will be terminated. Tax credits will offset this loss for most persons, including recipients of SSI, social security, State supplements to SSI, veterans pensions, and some AFDC recipients.
- *AFDC.*—Federal matching for AFDC will be ended. States will be required to supplement the new Federal cash grants plus tax credits for families who received AFDC throughout the last quarter of 1976 if these families otherwise will be worse off under the new system. Mandatory supplements must continue for 2 years, using the old AFDC rules. For AFDC recipients enrolled in the food stamp program, total Federal-State benefit income will have to equal the old AFDC grant plus 80 percent of the food stamp bonus. States may opt to use program savings to supplement new cases or to continue supplementation of old cases beyond 2 years. Under these circumstances, States must limit the benefit-loss rate applied to net earnings so that, in conjunction with the Federal program, the rate does not exceed 60 percent. The penalty for noncompliance will be counting State supplements as income under ABLE and reducing ABLE benefits one dollar for each State supplement dollar.
- *Supplemental security income.*—This new program will be retained, but it will be modified in the following ways to mesh more smoothly with the allowances and tax credits: dependents' benefits will be added, blind and disabled children will be transferred to ABLE, and the ABLE asset test will be adopted.
- *Health care.*—No specific program is proposed, but it is assumed that Congress will act to replace medicaid with national health insurance.
- *Day care.*—Federally aided day care centers will be prohibited from using fee schedules related to income. Instead, modest, fixed fees should be charged everyone. The standard employment expense deduction to be allowed under the income tax for one-parent working heads of household and for two-earner families will help low-income workers pay the fee (or a babysitter).
- *Subsidized housing.*—In order to provide greater equity between low-income persons living in subsidized housing and those unable to obtain such housing, and to keep a high financial return from work for persons living in subsidized housing and receiving income supplements, the cash program will count as income 80 percent of the subsidy received by public housing tenants or home-purchasers.
- *Basic educational opportunity grants.*—To avoid duplication, grants to students under this higher education program will be offset dollar for dollar by any cash supplements they receive under the new program.

- *Indian assistance.*—Cash payments to reservation Indians will be replaced almost completely by the new program of credits and allowances, although some short-term supplementation may be needed to protect current recipients from loss of income.

The net full-year cost to the Federal Government is estimated to be \$15.4 billion (see table 4). However, this cost is almost equally divided between (1) income taxes forgiven for low- and middle-income taxpayers, and (2) additional benefits to low-income units. Gross tax relief will result as follows:

	<i>In billions</i>
Taxes offset by tax credits.....	\$36.3
Taxes reduced by standard employment expense deductions.....	2.8
Taxes forgiven for ABLE units.....	3.7
Taxes reduced by provision integration ABLE with the income tax.....	1.6
Total tax reductions.....	44.4

Revenue increases of \$35.8 billion, which result from elimination of personal exemptions, the low-income allowance, and the deduction for child care expenses, produce net tax relief of \$8.6 billion or about 7 percent of income tax revenues projected for 1976 under current law.

More than half of the benefits to low-income units will be provided through the income tax in the form of rebated credits. Since tax credits in excess of a unit's tax liability will be paid to the unit, many low-income units will receive such rebates. Based on 1976 projections, rebates of \$12.9 billion will be paid to those units.

The costs of Federal expenditure programs will actually decline under this proposal. The estimated ABLE grants of \$11.4 billion and the cost of administration will be exceeded by savings in the elimination or reduction of current welfare programs. Reductions in current programs are estimated to total \$16.0 billion, assuming projected expenditures for these programs as shown in table 4.

The estimates of tax changes and ABLE grants were made by simulating the way the proposal would affect each household in a census survey. Costs were calculated for 1976. The program could not be fully implemented until 1977, but this one-year difference would not have much effect on net costs. A number of factors the computer model could not allow for, but which have major cost implications, have been handled as adjustments to the model's estimates (see bottom section of table 4). These adjustments include our best guesses about effect on costs of the following: (1) Less than 100-percent participation of persons eligible for ABLE grants or tax savings; (2) the undercount of transfer income in the census survey data; (3) the potential reduction in labor force participation by recipients; (4) the potential for some members of filing units to file independently to increase benefits; (5) the inability of the model to accurately simulate the plan's system of income accounting; and (6) the model's inability to reduce benefits for the proposed imputation of income to the assets of ABLE recipients. Some of the adjustments increase, and some decrease, costs. The net result is a \$2.5 billion reduction in the plan's estimated Federal cost.

TABLE 4.—*The model bill's estimated annual net Federal cost, based on projected data for calendar year 1976*¹

Change in revenue or expenditure	Amount of change
Change in Federal income tax revenues:	
A. Revenue increase from elimination of personal exemptions, low-income allowance, child-care deduction.....	+ \$35.8
B. Revenue reductions from tax relief provisions:	
1. Taxes offset by tax credits.....	-36.3
2. Taxes reduced by earnings deductions for single parents, 2d earners.....	-2.8
3. Taxes forgiven for ABLE units.....	-3.7
4. Taxes reduced by provision for transition between ABLE and income tax.....	-1.6
C. Tax credits disbursed.....	-12.9
Total revenue lost.....	-57.3
Net change in revenues.....	-21.5
Change in Federal expenditures:	
A. Expenditures under new system:	
1. ABLE grants paid ²	+11.4
2. Administration of ABLE.....	+1.0
Total ABLE expenditures.....	+12.4
B. Savings from reductions in current programs:	
1. Termination of Federal matching for AFDC payments.....	-5.0
2. Termination of Federal matching for AFDC administration.....	-.5
3. Termination of food stamp program.....	-8.0
4. Reduced subsidies under national health insurance ³	-1.0
5. Offset for housing subsidies.....	-.7
6. Reduced loans and grants for higher education.....	-.5
7. Reduced school-lunch subsidies.....	-.2
8. Reduction in aid to Indians and Cuban refugees.....	-.1
Total program reductions.....	-16.0
Net change in expenditures.....	-3.6
Adjustments to cost estimates for the following factors:	
Potential reduction in work effort by recipients.....	+ .7
Effects of accounting period not allowed for in TRIM.....	+ .3
Potential for filing unit members to file separately.....	+2.0
Reduction of benefit estimates for income under-reporting in the census.....	-2.5
Reduction of benefit estimates to allow for less than 100-percent participation.....	-2.0
Reduction of benefit estimates for income to be imputed to assets.....	-1.0
Net adjustment to cost estimate.....	-2.5
Net Federal cost of subcommittee plan (net revenues lost less net change in expenditures plus net adjustments).....	+15.4

¹ Estimated changes in the income tax and estimated ABLE payments were made by the Urban Institute using the TRIM (Transfer Income Model) computer program. TRIM simulated these changes in law and applied them to a 1976 projection of census survey data on the U.S. population. Costs of administration, reductions in current programs, and adjustments to the TRIM estimates were estimated by subcommittee staff, based on the best information obtainable from the U.S. budget and the various Federal agencies involved.

² Some relatively small share of the estimated ABLE payments would actually be paid through the SSI program. This results from the bill's provision that the dependents of SSI recipients be covered under SSI rather than ABLE. The estimated ABLE payments exclude SSI eligibles but not their dependents.

³ It was assumed that a national health insurance program would count ABLE benefits as income. Thus, introducing ABLE would reduce health subsidy costs.

It is impossible to assign a dollar amount to every expenditure change that will be likely under the model bill. The following is a list, not necessarily exhaustive, of such changes for which no estimates of cost or savings have been made:

<i>Cost to Federal Government not estimated</i>	<i>Savings to Federal Government not estimated</i>
1. Possible increases in federal matching of State social services outlays to cover local emergency aid.	1. Counting of farm subsidies at full value in income offset against ABLE allowances.
2. Federal "hold harmless" protection for required State supplementation of certain "old law" AFDC cases.	2. Recently enacted minimum wage increase not reflected in 1976 projection of wage income.
3. Liberalized asset limit for SSI.	3. Other types of income counted by ABLE but not recorded in the census data (e.g., value of employer-provided housing, gifts of more than \$250 a year).
4. Potential for uncollected overpayments.	

It is estimated that eleven million families and individuals, including 34 million persons, will be eligible to receive ABLE benefits. The average ABLE benefit for eligible four-person units will be \$1,303 per year, plus \$900 in tax credits. The program will almost halve the income deficit of families in poverty in 1976, from a projected \$19.3 billion under existing programs to \$10.4 billion. The number of families and individuals in poverty will fall from 11.9 to 9.4 million.¹ Since the net cost of the entire program is only \$15.4 billion, the plan will have a relatively high target efficiency, with a 58-cent decline in the poverty gap for every dollar of net cost. With mandatory and optional State supplementation of Federal benefits, the income deficit of the poor and the number of poor persons will be further reduced.

Another 4.8 million families and unrelated individuals, including 16.3 million persons, will not receive grants but will have their taxes reduced by tax credits, the standard employment expense deduction, and the way ABLE and the income tax will be meshed. The average tax saving for four-person units in this group will be \$368 a year.

To put these caseload figures in perspective, it is essential to understand that many who will benefit from ABLE will not be new additions to the income maintenance system; they benefit now from a wide variety of programs such as AFDC, general assistance, food stamps, subsidized housing, medicaid, and veterans' pensions. An estimated cumulative annual total of 60 million Americans will likely be eligible on income grounds for the food stamp program alone sometime during fiscal year 1977. What the bill's number of beneficiaries represents is a system which will treat all persons in need more fairly, including those already in the income maintenance system and those who in the past have been unfairly excluded.

¹ These calculations use a poverty threshold based on disposable (that is, after tax) income. Also, they assume 1976 price levels which would be 15 percent above 1973, with zero growth in real income. By contrast, the Census Bureau, which uses a before-tax measure of poverty, estimated that the poverty population in 1973 comprised 9.5 million families and unrelated individuals, with an aggregate income deficit of \$12.0 billion.

SECTION-BY-SECTION DESCRIPTION AND RATIONALE

SECTION 1—SHORT TITLE

The Tax Credits and Allowances Act of 1974.

SECTION 2—PURPOSE

"It is the purpose of this Act to replace or rationalize the many public programs which offer support based on family and individual income (1) by establishing, as a part of the Federal income tax structure, a new system of credits and allowances to increase the equity, strengthen the administration, improve the adequacy, and restore desirable social and economic incentives to income maintenance programs, and (2) by abolishing or modifying the existing public assistance and welfare programs accordingly."

TITLE I—PERSONAL CREDITS, ALLOWANCES FOR BASIC LIVING EXPENSES AND OTHER TAX PROVISIONS

SECTION 101—AMENDMENT OF 1954 CODE

Except as otherwise indicated, all provisions of Title I are amendments to the Internal Revenue Code of 1954.

SECTION 102—TECHNICAL AND CONFORMING CHANGES

Within 90 days of enactment, the Secretary of the Treasury must submit to Congress the technical and conforming changes to the Code necessitated by passage of this bill.

SECTION 103—ALLOWANCE OF CREDIT IN LIEU OF PERSONAL EXEMPTION DEDUCTION; REFUND; PREPAYMENT

Everyone permanently residing in the U.S., and anyone else required to file a Federal income tax return, will be entitled to a \$225 per-person credit against income tax liability. If the total credits for a tax filer and dependents exceed tax liability, the balance of the credits will be rebated and paid to the filer. Certain tax filers (e.g., inmates of penal institutions, aliens without permanent resident status) will be entitled to use the credits to reduce taxes but not to receive rebates of unused credits.

The tax revenue lost through these credits will be recouped in part through the elimination of the personal exemption deduction. The personal exemption permits a taxpayer to reduce taxable income by \$750 for him(her)self, spouse and each dependent. In general, the advantage of a tax credit over the personal exemption is that the \$225 credit is worth the same \$225 to everyone regardless of income. The \$750 exemption is worth as little as \$10⁷ in reduced taxes to the low-income taxpayer in the 14-percent tax-rate bracket, or as much as \$525 to the wealthy taxpayer in the 70-percent bracket. For the person with little or no taxable income, the exemption is also worth little or nothing, whereas the credit is still worth \$225. The greater

progressivity of the credit will mean that most taxpaying families of four with incomes below \$25,000 a year, for example, will have their income taxes lowered as compared with current law, and that most such families above \$25,000 will pay more in taxes.

Section 103 includes the following provisions:

(a) *Repeal of deduction for personal exemptions.*—Eliminates the \$750 personal exemption as a deduction from adjusted gross income.

(b) *Allowance of personal credits.*—Section 42 of the Code is redesignated Section 43, and a new Section 42 is inserted to establish the personal tax credit as follows:

Amount.—\$225 per person per year, to be applied against income tax liability, with any balance rebatable to the tax filer(s) including amounts for dependent children, and for other dependents with gross income of less than \$750 for the year.

Credits for children of separated or divorced parents.—The parent with custody of the children for a greater part of the year than any other person or agency will be allowed to claim the credits for them, regardless of which parent is providing over half of their support, unless a legal agreement is in force which designates a specific parent as claimant. The present tax provision is that the parent with whom the child is living is assumed to be contributing more than one-half of the child's support. Therefore, the parent who has custody of the child currently claims the dependency exemption, with the following exceptions:

The absent parent may claim the exemption if he or she has contributed at least \$600 during the year toward the child's support and the divorce or legal separation decree, or a written agreement between the parents, specifies that the absent parent may claim the exemption; or

The absent parent has contributed at least \$1,200 for the child's support and the parent with custody cannot prove that he or she has met more than half of the child's support.

However, given the difficulty of collecting child support in many cases and the fact that credits represent cash income for low-income families, it seems reasonable and fair to allow the parent who has primary custody of the child to claim the tax credit. The \$225 tax credit could be considered as a part of the absent parent's support obligation and could be taken into consideration when court orders for support are adjudicated.

Coordination with certain assistance programs.—Students receiving aid under the basic educational opportunity grant program will have such aid reduced by the amount of the tax credit rebated to the student. The Secretary of the Treasury will issue regulations on the determination of this amount. (For a discussion of this provision, see the discussion of Sec. 9905.)

Tax credits cannot be counted as income under any Federal program except the child nutrition programs of the Department of Agriculture and the medical assistance programs authorized under Title XIX of the Social Security Act. Thus, the loss of food stamps for beneficiaries of programs such as SSI and veterans pensions will be compensated for by the addition of tax credits to their incomes.

(c) *Refund of excess credit available other than in certain cases.*—Persons in penal institutions throughout the year and aliens who are

not permanent residents of the United States may use credits to reduce taxes, but they may not receive rebates of unused balances.

(d) *Prepayment of estimated personal credits to recipients of allowances for basic living expenses.*—Persons receiving allowances under Sec. 106 of this Act can have their credits prepaid on a monthly or semi-monthly basis and receive them as a part of their allowance payments.

(e) *Denial of credit to estates and trusts.*—Personal credits will not be allowed for estates or trusts.

(f) *Effective date.*—Provisions of this section will be in effect for taxable years starting after December 31, 1976.

SECTION 104—REPEAL OF LOW INCOME ALLOWANCE

Eliminates the low income allowance feature (the \$1,300 minimum) from the standard deduction. The other provisions are retained (15 percent of adjusted gross income up to a maximum of \$2,000). The proposed allowances and credits render the \$1,300 minimum obsolete. This section will be in effect for taxable years starting after December 31, 1976.

SECTION 105—STANDARD EMPLOYMENT EXPENSE DEDUCTION TO SUBSTITUTE FOR EXISTING HOUSEHOLD AND DEPENDENT CARE EXPENSE DEDUCTION

The current tax provision allowing a deduction for certain household and dependent care expenses will be replaced with a standard employment expense deduction. The deduction will be standardized by family type and will not relate to actual expenses. One-parent families and two-earner families have higher employment expenses relative to other families, particularly for child care. The income tax has allowed some itemization of such expenses to remedy this situation. The standard deduction proposed to replace these itemizations will go further in establishing equity among different family types and will be simpler for the taxpayer to use and IRS to check. The deduction for two-earner families will help offset the tax disadvantage working married couples now suffer relative to unmarried couples, and thus is a significant tax reform measure.

The standard employment expense deduction will be computed as follows:

Type of filer:	Amount deducted from gross earnings
Head of household filer with a dependent child under age 15 or a disabled dependent.	20 percent up to \$1,500 maximum.
Other head of household filers with dependent children.	10 percent up to \$1,000 maximum.
Second earner (spouse with lowest earnings) in a joint filing unit with a dependent child under age 15 or a disabled dependent.	10 percent up to \$1,000 maximum.
Other second earners.....	10 percent up to \$500 maximum.
All other filers.....	Nothing.

The provisions of this section will be in effect for taxable years beginning after December 31, 1976.

SECTION 106—ALLOWANCE FOR BASIC LIVING EXPENSES

(a) In general, the current Federal role in aid to families with dependent children (AFDC), food stamps, and cash aid to Cuban refu-

gees and to Indians will be terminated (see Title II of this Act). These programs will be replaced by a new system of allowances to be operated by the Internal Revenue Service (IRS) in conjunction with the Federal income tax. These allowances for basic living expenses (referred to as ABLE grants in the following paragraphs) will be payable to qualified low-income families and individuals on a monthly or semi-monthly basis. Allowances will be uniform in amount throughout the Nation. Coverage will be extended to all low-income persons not receiving Federal supplemental security income (SSI) benefits for the aged, blind, and disabled. This bill adds new chapters 98 and 99 to the Internal Revenue Code to spell out the provisions of this new program. The key sections of these chapters are noted below.

Section 9802—ELIGIBILITY FOR RECEIPT OF ALLOWANCE.—To file an ABLE application, a person generally must be age 18 or over and not claimed as a dependent by any other adult. The dependency test under the income tax will be applied. The members of the filing unit are the filer, spouse, dependent children, and any other persons dependent upon the filer. A person under age 18 may file if the person has a spouse or dependent child and is not him(her)self claimed by someone else as a dependent. Long-term residents of medical, mental health, mental retardation, nursing, and custodial care facilities are prohibited from filing.

A person receiving an SSI payment and/or a State supplement to SSI cannot file under ABLE, he/she cannot be counted as an ABLE filing unit member, and his/her income cannot be counted as available to the ABLE unit. SSI is a new Federal program offering aid to needy aged, blind, and disabled persons. To cover these recipients under ABLE would, in effect, eliminate the SSI program. There are two good reasons for retaining SSI as a separate program. First, it is still caught up in the confusion accompanying any new governmental initiative of that magnitude. It seems desirable, therefore, to postpone any decision on SSI's future until its effectiveness can be assessed. Second, most SSI recipients also receive social security benefits. Thus, improvements in SSI can best be accomplished by dealing with associated social security issues concurrently. However, it is necessary to make some changes in SSI to avoid inequities and irrational overlaps between SSI and ABLE. For this reason, the bill will make some changes in the SSI program (see Sec. 202).

In addition, individuals cannot be included in ABLE units if they are in penal institutions, aliens not in permanent residency in the United States, or citizens or resident aliens during any month in which residence is outside the jurisdiction of one of the 50 States, the District of Columbia, Guam, Puerto Rico, or the Virgin Islands. Although not allowed to file for ABLE benefits, individuals can be included in ABLE units as dependents of ABLE filers if they are long-term residents of mental retardation, mental health, medical, nursing home, or custodial care facilities.

Section 9803—AMOUNT OF ALLOWANCE.—ABLE grants will be determined by subtracting part of a filing unit's income (see Sec. 9804) from the unit's total maximum allowances. Maximum allowances are

determined by summing the amounts allowable for each unit member, based on the following schedule:

Member of unit:	Maximum annual allowance
Married couple filing jointly.....	\$2,050
Head of household filer ¹	1,225
Single filer.....	825
Dependent age 18 or over.....	825
First dependent child in filing unit.....	325
Second dependent child.....	325
Third dependent child.....	225
Fourth dependent child.....	225
Fifth dependent child.....	225
Sixth dependent child.....	225
Seventh and successive dependent children.....	0

¹ A head of household filer will have to meet the same criteria as presently used in determining this status under the Federal income tax. A head of household filer must be (1) separated, divorced, widowed or single; (2) supporting a child or a dependent relative; (3) sharing the same household with the dependent(s); and (4) paying at least half the cost of the entire household.

Thus, allowances total \$2,700 a year for a couple with two children (\$2,050 + \$325 + \$325), or \$2,325 for a divorced mother of four (\$1,225 + \$325 + \$325 + \$225 + \$225). These allowances, when added to the \$225 per-person tax credits, constitute a Federal floor under individual and family incomes. Thus, a couple and two children with no private income will receive \$900 in tax credits and \$2,700 in ABLE grants for a total income of \$3,600. A mother of four with no private income will receive \$3,450 (\$2,325 from ABLE, \$1,125 from credits).

Any allowance schedule such as the above necessarily results from a compromise among many factors, including the cost of the program, the relationship of benefit amounts to the cost of living and to wage levels in the job market, and the impact on family income of family decisions on whether or not to have another child, to desert one's spouse, or to split a single family unit into two independent units. The schedule chosen for this bill was developed based on the following considerations:

A penniless two-parent family of four would have an income equal to at least 71 percent of the July 1974 poverty line (\$5,058). However, because nearly every family has some income of its own, many would be removed from poverty by the new program;

One-parent families on AFDC would be better off than now in a number of States, and all States could afford to supplement the Federal benefit up to current AFDC payment levels should they opt to continue paying families at those levels on a long-term basis;

There would be no significant financial advantage for a low-income couple to live together out of wedlock;

There would be no significant financial advantage for a low-income father to desert, or pretend to desert, his family; and

There would be no net financial gain to a family from having large numbers of children.

Allowances will ordinarily be figured on a monthly basis, but may be computed yearly for persons choosing to file on an annual basis. Provision is also made for annual recomputation and reconciliation of allowance payments if income actually received deviates from the income amount upon which allowance payments were based. Recomputation can also be made for any individual whose actual status was different from that upon which payments were based.

Section 9804—ALLOWANCE OFFSET.

(a) In general.—A portion of a unit's income is deducted from the maximum allowance to determine the benefit entitlement. The income so deducted is called the "allowance offset." There are four rates at which the income defined in paragraph (c) below is to be offset against allowances. The rates, and the types of income to which they apply, are as follows:

Type of income to which rate applies:	Allowance offset rate (percent)
Earned income (wages, salaries, commissions, tips, net income from self-employment), Commodity Credit Corporation loans.....	50
All income not otherwise classified (property income, public or private retirement benefits, annuities).....	67
Public housing subsidies.....	80
VA pension benefits, farm subsidy payments, refunds of Federal income taxes overwithheld.....	100

Thus, a unit consisting of two parents and two children, with gross allowances of \$2,700, will have a net allowance of \$1,200 (\$2,700 - \$1,500 in allowance offsets) if the family earns \$3,000. (If the family is subject to social security taxes on its earnings, net allowances will be higher because of a provision for deducting such taxes from income in computing allowances. See paragraph (c) below.) The net allowance will amount to \$700 (\$2,700 - \$2,000 in allowance offsets) if the family receives \$3,000 in social security benefits. In both cases the family will also receive \$900 in tax credits.

The offset rates applied to the various income sources are crucial elements in the design of this program. They are critical in determining what the total cost of the allowances paid out will be, they determine the financial incentive to earn another dollar, and they are instrumental in considerations of equity among different types of people. Shown below is a classification of each type of income itemized in paragraph (c).

Type of income:	Offset rate (percent)
Pensions, annuities.....	67
Prizes, awards.....	67
Life insurance proceeds.....	67
Gifts, support, alimony.....	67
Interest, dividends.....	67
Workmen's compensation.....	67
Rental value of parsonages.....	50
Nontaxable military pay.....	50
Income imputed to assets.....	67
Scholarships.....	67
Employer-provided room and board.....	50
Nontaxable military allowances.....	50
Available income from trusts, estates.....	67
Capital gains.....	67
Unemployment compensation.....	67
Strike benefits.....	67
Social security benefits.....	67
Railroad retirement benefits.....	67
Veterans' cash benefits:	
VA pension.....	100
Other benefits.....	67
Income from foreign sources:	
Earned.....	50
Other.....	67
Commodity Credit Corporation loans.....	50
Federal income tax refunds.....	100
Public subsidies for rent or mortgage costs.....	80
Black lung cash benefits.....	67

(b) Carryover of excess allowance offset.—Eligibility for and amount of net allowance payments will be based on the most recent monthly income report plus any "carryover income" applicable from previous months. (At the filer's option, income can be accounted for based on the preceding taxable year. Under this option, the monthly income carryover does not apply.) The carryover system takes income in excess of the program eligibility level in any month and uses it to fill up the deficit between income and the eligibility level in months in which income has fallen. An amount of allowance offset which exceeds a unit's maximum allowances will be maintained in a carryover account for up to 11 months (23 months for self-employed persons) following the month during which the excess was received. The excess to be carried over is computed by multiplying the unit's income by the appropriate offset rates and subtracting the appropriate total unit allowances from the product. Carryover income is applied as current income in computing net allowances, and is used up in the order accrued. Carryover amounts expire if not used within 11 months after accrued (23 months for the self-employed).

For example, a penniless two-parent family of four is eligible for maximum benefits of \$300 monthly (\$225 in allowances, \$75 in rebated tax credits.) If a family has \$900 of monthly earnings in each of the first six months of the year and nothing thereafter, it will be subject to the carryover provision. ABLE rules regarding how income is counted to offset maximum allowances will be applied to its prior monthly \$900 earnings. Applying a 50-percent offset rate (benefit-loss rate) to earnings along with any other deductions or credits the family is entitled to under ABLE rules yields the monthly income amount that will be used to reduce ABLE grants. Since this net amount is larger than the maximum monthly ABLE grant in every month during which the family earned \$900, the excess of counted income over maximum ABLE grants becomes carryover income, and is used to reduce the ABLE grant the family receives in the months when it has reduced or zero income.

If monthly income is negative, income is considered to be zero in adjusting the carryover balance and computing net allowances. In the event that a unit dissolves or a new unit is formed, the carryover balance based on the old unit's composition moves with the person(s) whose income generated the carryover amounts.

(c) Offset income.—What is to be considered as income under ABLE is broader than the "adjusted gross income" definition used in the income tax. The following sources of income, not now subject to the income tax, will be considered, at least in part, as offsets to ABLE allowances:

- All private pensions and annuities;
- All interest, dividends and capital gains;
- All Federal, State, or local benefits for retirement, disability, and unemployment;
- Prizes, awards, gifts, support and alimony payments;
- The rental value of housing provided privately or publicly, free or at reduced cost;
- Scholarships and fellowships;
- Income earned abroad;
- Income imputed to assets; and

A variety of other pay and benefits not now subject to the income tax.

The intent of ABLE is to provide allowances based on financial need. This means that total income must be measured as accurately as possible. Thus, the definition of income cannot allow the many exclusions the income tax code now permits in the determination of taxable income.

Under ABLE, income will be imputed to the gross assets a recipient controls. This is a fairer way of keeping wealthy individuals out of the program than the arbitrary asset ceilings now imposed by welfare programs. The method of imputation used will encourage thrift, but it will not allow benefits designed for needy people to be siphoned off to persons with considerable assets they refuse to liquidate for current income.

Two deductions will be allowed in computing offset income: the standard employment expense deduction discussed in Sec. 105; and a deduction for employee contributions to social security. These deductions are needed to partially offset the expenses of going to work and to keep the overall benefit-loss and tax rates on earnings at a level near 50 percent. The allowance system has been designed to preserve financial incentives to work, and these deductions are key elements in that design.

The income to be offset against gross allowances in determining a unit's eligibility for net allowances or tax relief is defined as follows: The unit's income available for offset shall be each unit member's adjusted gross income, as defined in Sec. 62 of the Internal Revenue Code of 1954, less employee contributions to social security and the standard employment expense deduction (see Sec. 105), plus the amount of the following items, to the extent that they are not already included in the definition in Sec. 62:

(A) The entire amount of any payment received as an annuity, pension or retirement benefit;

(B) The amount or value of any and all prizes and awards in excess of \$250 per year;

(C) The proceeds of any life insurance policy in excess of \$1,500;

(D) The amount or value of gifts (occasional, non-obligatory contributions) in excess of \$250 per year, other than a gift from a member of the same filing unit or from a private charity, or from a public agency when need of the recipient is the primary consideration;

(E) Cash or liquid inheritances and value of other inherited property in excess of \$1,000, except that the value of inherited real property used by the filing unit as its home is excluded, as is any property inherited from a deceased spouse;

(F) All support and alimony payments, except for support received from a public or private charitable organization based on need;

(G) Interest on all government obligations;

(H) Any amount received in the form of damages, insurance payments, workmen's compensation, or in any other form as (i) compensation for physical, mental or any other personal injuries

or sickness, (ii) wage or income continuation payments, or (iii) payments for medical expenses, unless payments are used for associated medical expenses not otherwise reimbursed;

(I) The rental value of parsonages;

(J) Combat pay and mustering-out payments to members of the Armed Forces;

(K) The full amount of all dividends, except insurance dividends that are used to offset premiums;

(L) The full amount of any public or private scholarship or fellowship;

(M) The amount by which living expenses of the family unit are reduced when an employer supplies meals or lodging at less than their fair market value, regardless of whether the arrangement was made for the convenience of the employer;

(N) An amount paid by the government to a member of the Armed Forces as an allowance for quarters or subsistence or as gratuity pay;

(O) The amount of current or accumulated income that could, within the discretion of any person with a nonadverse interest, be paid to an individual from a trust or estate of which he is a designated beneficiary, except that any such amount not exceeding \$3,000 and in fact paid to some other person shall not be so included;

(P) All capital gains;

(Q) All unemployment compensation, from whatever source derived, whether from government insurance programs or otherwise;

(R) Strike benefits received from any union or other organization or agency;

(S) All cash benefits received pursuant to Title II of the Social Security Act;

(T) Railroad Retirement Act cash benefits;

(U) Cash benefits including readjustment benefits under laws administered by the Veterans Administration;

(V) Foreign source income;

(W) Amounts received as loans from the Commodity Credit Corporation;

(X) Income imputed to the market value of assets owned by filing unit members, or controlled through interest in an organization, without regard to liens held against the assets. The imputed amounts will be according to the following schedule:

<i>Total gross value of assets</i>	<i>Annual amount of income imputed to gross assets</i>
0 to \$9,999	0.
\$10,000 to \$19,999	\$100.
\$20,000 to \$29,999	\$200.
\$30,000 to \$39,999	\$300.
\$40,000 to \$49,999	\$800.
\$50,000 to \$59,999	\$1,300.
\$60,000 to \$69,999	\$1,800.
\$70,000 or more	\$2,800+10 percent of assets in excess of \$70,000.

Imputed income will be offset by income actually earned by the assets;

- (Y) Refunds of Federal income taxes overwithheld;
- (Z) The amount by which a unit's rental or mortgage costs are reduced below fair market value through a public housing subsidy program; and
- (AA) All cash benefits received pursuant to the Coal Mine Health and Safety Act.

Section 9805—INCOME TAX REDUCTION FOR CERTAIN INDIVIDUALS INELIGIBLE TO RECEIVE ABLE ALLOWANCES.—Recipients of ABLE payments will not pay the Federal income tax (see Sec. 107 below). Non-recipients will pay the tax. This section provides for a smooth transition into the tax system for persons with incomes just over the limits for ABLE eligibility. The provision is that a taxpayer pays the lesser of either the regular income tax liability or the excess of allowance offsets, calculated according to ABLE rules, over his/her ABLE unit's maximum allowances. Without this provision, some taxpayers would have less after-tax income than some ABLE recipients, since the income tax generally applies to all income, not just to income over the ABLE eligibility ceiling. For example, suppose a family of four has total annual wages of \$5,500, which is \$100 over the ABLE eligibility level. The proposed income tax liability for this family (exclusive of tax credits) is \$748. However, using the alternate tax computation method, the family's tax is only \$50, which is the difference between the maximum ABLE allowance for such a unit (\$2,700) and the family's allowance offset using ABLE offset rates ($\$5,500 \times .50 = \$2,750$). Thus, many moderate-income taxpayers will derive tax relief even though they are ineligible for allowances.

Section 9901—FILING FOR ALLOWANCES; RETURNS, RECORDS, AND INFORMATION.

This bill proposes a retroactive accounting period (that is, payments based on past income), which should improve administration and hold down cost because it avoids the problem of people predicting their future incomes but failing to correct their forecasts when those incomes rise. The accounting period is short—one month—to make the system as responsive as possible to the truly needy. The carryover of excess past income (see Sec. 9804b) is used to promote equity between people with steady incomes and those with incomes which fluctuate over time. The carryover also keeps payment costs down by avoiding payments to people whose incomes, when measured over periods longer than one month, are higher than the levels the program is geared to serve. Otherwise, persons could work and have substantial incomes for 9 months but quit work and collect full benefits immediately, while persons with lower annual incomes accrued at a steady rate (12 months) might be totally ineligible.

A unit filing under ABLE rules must provide the agency with an income report once every month. The report will cover income received during the preceding month and will be on the same basis (cash or accrual) as the filer uses for the Federal income tax. The penalty for failure to file a monthly report is termination of allowance payments by the agency. The frequency of reporting of income and circumstances, once every month, should be often enough to result in accurate reporting without becoming too much of a paperwork burden on either the recipients or the administrators.

Application for a monthly allowance payment must be filed no later than 14 days after the first day of the month of application. Units not filing on a monthly basis may file an annual application. Such an application is due on the same date a tax return would be due. Persons receiving allowance payments monthly must file an annual tax return for the taxable years during which payments were received.

Section 9902—PAYMENT OF ALLOWANCES.—A payment is to be computed and disbursed every month, based on the sum of the income reported for the preceding month and the carryover income applied to that period. (At the filer's option, one-half the period's net allowance may be disbursed semi-monthly.) A filer may elect to receive the unit's universal tax credits through this monthly or semi-monthly disbursement system as well, as provided for under Sec. 6428. Units filing on an annual basis will receive payments within 60 days of the last date for annual filing.

Payment will be made to the filer, or to husband and wife jointly in the case of married persons. The Secretary will have authority to pay third parties where appropriate.

Spouses can jointly elect to receive separate payments in amounts they designate to the agency. A spouse can unilaterally make such an election if the other spouse has been continuously absent from the home for at least four weeks.

Section 9903—ADMINISTRATION; OVERPAYMENT OR UNDERPAYMENT.—Overpayments and underpayments will be corrected through adjustments in future allowance payments to the persons involved where possible. Otherwise, special payments to, or recovery from, such individuals will be made. In the case of reduced allowance payments, the amount of the monthly reduction cannot exceed one-fourth of monthly income.

Hearings will be granted to individuals who request them within 30 days of a disputed agency determination. The hearing must be completed within 90 days of the request. The Secretary of the Treasury will specify in regulations the circumstances in which an applicant must receive notice of a change in payment status prior to that change being made.

Section 9904—DEFINITIONS AND SPECIAL RULES.

(a) **Definitions.**—The following key terms used in this title are defined: adult; child; allowance period; base period; United States; dependent; head of household; foreign; and earned income.

(b) **Special rules.**

(1) **Qualification as dependent or head of household.**—Determinations of dependency or head of household status shall be made based on the current allowance period. Benefits paid under Section 106 (allowances for basic living expenses) shall be considered as income of the filer(s); thus, in determining dependency, a benefit amount due on account of a dependent in the filing unit will be counted as income of the filer rather than the dependent.

(2) **Marital status.**—Determination of marital status will be based on status at the beginning of the allowance period in question. A person legally separated under a decree of divorce or an agreement of separate maintenance shall not be considered as married. A person who states that his/her spouse has been contin-

uously absent for at least 30 days and is not expected to return will likewise be regarded as unmarried. A couple living together with custody of a child born of such couple shall be regarded as married.

Section 9905—COORDINATION WITH OTHER ASSISTANCE PROGRAMS.—The amount of allowances and credits beneficiaries receive under this Act will serve to reduce dollar-for-dollar benefits under the Federal educational opportunity grant program. The latter program offers aid to students based on financial need. Since students can be eligible for ABLE under some circumstances, the two programs would be duplicative. This provision will prevent such duplication.

Section 9906—ANNUAL REPORTS; AUTHORIZATION FOR APPROPRIATIONS.—The Secretary will submit an annual report to Congress on the operation of ABLE. Funds will be available for program expenditures from an open-ended appropriation. The Secretary may spend up to 0.5 percent of the amount spent in the prior fiscal year for allowance payments for research, program evaluation, and statistics.

(b) *Technical amendments.*—Provisions of Sec. 106 will become effective on January 1, 1977.

SECTION 107—INDIVIDUALS RECEIVING ALLOWANCES FOR BASIC LIVING EXPENSES NOT TO BE TAXED ON INCOME

Persons receiving ABLE payments will not be subject to the Federal income tax, effective for taxable years beginning after December 31, 1976. Allowance payments are reduced by a portion of income, the reduction being similar to a tax. Exempting ABLE recipients from the income tax avoids the problem of combined "tax rates" being too high. (A provision for the transition from exempt to non-exempt tax status is in Sec. 9805.) Provision is made for adjusting the withholding tax for purposes of this section.

TITLE II—PUBLIC ASSISTANCE AND WELFARE REFORM

SECTION 201—MANDATORY STATE SUPPLEMENTATION FOR FORMER AFDC RECIPIENTS

Title IV of the Social Security Act, authorizing Federal grants to States for aid to families with dependent children, is effectively repealed, as is the food stamp program in Sec. 303 below. New sections of Title IV are added to require States to make supplementary payments to families receiving AFDC throughout the fourth quarter of 1976 if their total family income will be reduced under the new program. This protection is needed in order to prevent a sudden loss of income because of differences in current and proposed benefit levels. The alternative is to leave States free to supplement these families if they wish, on the assumption that States with high payment levels will want to continue the high standards they have set in the current State-administered programs. It is appropriate, however, for Congress to take some responsibility for insuring against sudden loss of income of families because of the replacement of the Federal-State AFDC program plus food stamps with the wholly Federal ABLE grants plus tax credits. States should be protected against any increased costs due to this federally mandated supplementation to main-

tain family income levels. The proposed transitional provisions for a mandatory supplement are similar to those enacted by Congress when the Federal SSI program was initiated.

The major impact of reduced benefits will fall on families who have no income from other sources. Families who receive social security benefits, for instance, are not likely to suffer a reduction in income since ABLE benefits will be reduced by only 67 percent of social security income rather than by 100 percent as under AFDC in most States. Some, but not all, families with earnings will also benefit from the transfer to the new program due to differences in offsetting earnings against benefits under the old and new programs.

A hold harmless provision will protect the States against any increase in State expenditures above their calendar year 1976 share of AFDC payments. However, the cost of the mandatory supplement is not expected to reach this level in any State for several reasons. First, the basic ABLE benefit plus tax credits for a family will exceed the Federal share of the maximum AFDC payment in most States. Even if States raise payments to cover food stamp bonus amounts, in every State the total amount of a State's supplemental payments should be less than its share of AFDC costs. Second, in most States, the amount of the AFDC payment varies because of living arrangements or amount of rent paid, and in some States there are regional variations in payment standards. States typically report to the Department of Health, Education, and Welfare the highest amount payable anywhere in the State. Therefore, even in States with high reported payment standards, there are a number of families who will require little or no supplementation. Families with income will require lower supplementation than families with no income. Third, the normal turnover in AFDC cases should quickly reduce the number of families entitled to a mandatory supplement.

The State supplementation is required for 2 years. By that time normal turnover and changes in family income and composition will have reduced or eliminated the need for supplementation for a large proportion of families. States may continue to supplement these families after two years at their option and may supplement other families as well. The hold harmless provision does not apply to such optional supplemental payments, however. (For limitations on optional supplementation, see Sec. 301.)

The responsibility for monitoring State benefit provisions is placed with the Secretary of HEW, since that Department will have a continuing relationship with the States through its administration of grants for services and emergency assistance.

The following paragraphs detail these State supplemental provisions, as contained in new Sections 401-404 of Title IV of the Social Security Act.

States must make supplemental payments to families receiving AFDC throughout the fourth quarter of 1976 in the amount needed to maintain total family income based on the December 1976 State AFDC rules.

AFDC recipients included under SSI as dependents by Sec. 202 of this bill: The amount of supplemental payment will be the difference between (a) the total of the SSI benefit and the SSI State supplement

actually received in December 1976, the AFDC benefit that would have been paid using December 1976 rules, 80 percent of the food stamp bonus actually received in December 1976, and other income received by all family members; and (b) the new SSI benefits with all family members included, plus net tax credits, and other income received by all family members. Since food stamps generally are not as valuable to families as cash, only 80 percent of the value of the food stamp bonus is converted to cash in these calculations.

All other AFDC families: The amount of the supplemental payment will be equal to the difference between (a) the total of the AFDC benefit that would have been paid based on 1976 rules, other income received by the family, and 80 percent of the food stamp bonus actually received in December 1976; and (b) the total of ABLE benefits and net tax credits, and other income received by the family.

The supplemental payment is mandatory for a two-year period, and will change for each family based on changes in income or family composition or other factors which would have changed the AFDC benefit.

Any State which refuses to make the required supplemental payments will not be entitled to the Federal share of the cost of social services under Title VI of the Social Security Act.

Limitation on fiscal liability: The State will be reimbursed from Federal funds for any excess in the total amount of the required family supplements expended in calendar year 1977 or 1978 over the State's share of all AFDC payments in calendar year 1976.

SECTION 202—BENEFITS UNDER SUPPLEMENTAL SECURITY INCOME PROGRAM FOR AGED, BLIND, AND DISABLED INDIVIDUALS AND THEIR FAMILIES

The aged, blind and disabled who are eligible for benefits under SSI, Title XVI of the Social Security Act, are not included in the ABLE plan at this time. They could be included, and their higher benefits maintained, by providing a larger allowance or tax credit for this group than for other ABLE recipients. A higher benefit is justified since aged, blind and disabled persons have limited potential for increasing their income through employment. However, for reasons noted earlier, it seems preferable to maintain SSI as a separate program for the near future.

But changes are needed in the SSI program to make it compatible with the ABLE plan. The proposed changes to Title XVI are the inclusion of dependents (spouse and children) in SSI, the transfer of blind and disabled SSI beneficiaries under age 18 to ABLE family units (see Sec. 205), and a revision of the assets test for the basic SSI program to make it identical to the test used for ABLE applicants. The following paragraphs detail these changes.

Provision for family units under SSI.—SSI is one of the few security programs, and the only major need-based plan, that deals with *individuals* on a categorical basis. Other programs, including social security, veterans' benefits, railroad retirement, coal miners' benefits, and the proposed ABLE plan either include benefits for dependents when primary eligibility is based on the individual or treat the family as a unit. This disparity between SSI and other programs requires special rules for determining eligibility and allocating family income

when individual SSI beneficiaries are members of family units. AFDC is a family assistance program, but an SSI beneficiary, even if the father of AFDC children, now has his income and resources excluded when determining eligibility of the family for AFDC. It is administratively cumbersome for two separate agencies to deal with the same family and can result in inequitable differences in total family income because of technical differences between the programs.

The family unit concept is appropriate when an aged, blind, or disabled individual has a spouse or a spouse and children. In practice, SSI recognizes family need by considering the spouse's income to be available to the eligible individual after making allowance for the needs of ineligible family members. Maintaining separate ABLE and SSI units in the same family with appropriate allocation of income would be extremely difficult to accomplish administratively and is unnecessary. It is simpler to include both the SSI beneficiary and his or her spouse and children in the SSI benefit itself. This can be accomplished by including in SSI amounts for the spouse and children comparable to the basic ABLE allowances for a spouse and children. In this way the family will receive the SSI and ABLE benefits to which they are entitled, family income will not have to be allocated between programs, and the income advantage of SSI beneficiaries will be maintained. This will avoid changes in eligibility and treatment of income when an ineligible spouse reaches 65.

Definition of eligible individual and family members to be included in SSI.—An eligible individual is a blind or disabled individual age 18 or over, or an individual age 65 or over. Family members to be included are the individual's spouse with whom he/she is living, and children under age 18 in the care of the individual or spouse. Children are defined as natural or adopted children of the individual or spouse who are living in the home, and other related or unrelated children in the care of the individual or spouse. "In the care of" means that the child is living in the home of the eligible individual, and the child's natural or adoptive parents are not living in the same household. Children placed by a public or nonprofit private child-placement or child-care agency for who foster-care payments are made are *not* included as family members.

Countable income for eligibility and amounts of benefits—

Person:	Annual SSI benefit levels
Eligible individual.....	\$1,752.
Spouse	\$1,025.
First and second child.....	\$325 each.
Second through sixth child.....	\$225 each.
Additional children.....	0.

Income of the eligible individual and of all included family members is counted in determining eligibility and amount of benefits, with income exclusions as under the current SSI program, except that there will be excluded one-third of any payment for support received from an absent parent for a child included as a family member.

Resources.—The assets test for eligibility for SSI benefits is to be replaced with the income imputation used for ABLE (see Section 9804(c)(2)) to improve the administration of SSI and to standardize SSI and ABLE with regard to asset limits.

SECTION 203.—SERVICES FOR FAMILY AND CHILDREN

The heading of Title VI of the Social Security Act is changed to "Grants to States for Services to the Aged, Blind, or Disabled, and for Services to Families and Children," and Part B, "Services to Families and Children" is added to this title. This section authorizes the continuation of Federal grants to States administering services to families and children, previously approved under Parts A and B of Title IV, during a transitional period pending development of a plan which will redefine Federal, State and local responsibilities for administering and funding services to individuals and families. The Secretary of Health, Education, and Welfare is directed to submit to the Congress a comprehensive service plan within one year of the effective date of this legislation.

Provisions for services to families with children, Federal participation in the cost of foster care to replace AFDC-foster care, and emergency assistance should be included in a comprehensive services title combining these services, child welfare services, and services to the aged, blind and disabled in Title VI. Considerable revision of social services legislation will be needed, since services could no longer be tied to the receipt of State-administered welfare assistance. There will be an opportunity to re-examine the human services which are a proper public concern and to redefine the appropriate Federal, State and community roles in providing these services.

Many of the services for which Congress has authorized Federal funding in the past are not necessarily income-related, and their primary purpose has not been to move people off the welfare rolls. They will still be needed even if there is no "welfare" program.

There will be a continued and probably greater need for emergency assistance since the ABLE program will not consider crisis needs and, therefore, will not always offer short-term assistance in times of urgent need. Therefore, a comprehensive approach to services is needed which provides for a flexible system of delivery of services.

Funds for the work incentive (WIN) program should be included under the Comprehensive Employment and Training Act, Public Law 93-203. There is no categorical differentiation of individuals and families who participate in the ABLE program, no work requirement, and therefore no justification for a separately administered manpower program like WIN for a specified group in the population. The Comprehensive Employment and Training Act of 1973 includes provision for training, child care, and other employment support services comparable to those in the WIN program. Prime sponsors are required to give assurance that, to the maximum extent feasible, manpower services will be provided to those most in need of them, including low-income persons and persons of limited English-speaking ability. The phrase "those most in need of them" should be interpreted to include women in low-income families who wish to improve their ability to support or help support their families. The elimination of a work or training requirement should have little effect since there have been more volunteers from AFDC families than available slots in most WIN programs.

SECTION 204—OPTIONAL STATE SUPPLEMENTATION OF SSI BENEFITS

States *will be required* to make SSI supplemental payments to dependents who were in AFDC families if total family income, includ-

ing the income of the SSI beneficiary, will otherwise be reduced because of the transfer of family members to the SSI program (Sec. 201). States may supplement SSI benefits to couples consisting of the eligible individual and an ineligible spouse (as defined under the current program), but any such increase in the supplemental amount will not be protected under the hold harmless provision.

The income of SSI recipients will be increased by the amount of the tax credits, which will not be counted as income in determining the amount of the SSI benefit. In general, the tax credit will exceed the amount of the food stamp bonus now received by individuals and couples on SSI. Food stamps will be completely cashed out by the tax credit in States with federally administered supplements since they cannot count tax credits as income and cannot, therefore, reduce the supplement by the amount of the tax credit.

SECTION 205—SSI SUPPLEMENTS FOR CERTAIN DISABLED CHILDREN INCLUDED IN ABLE UNITS

The primary purpose of the SSI program is to provide a minimum maintenance income to aged, blind, and disabled adults who have limited earning potential because of their condition. The blindness or disability of a child does not have the same direct relationship to income for a child's maintenance. Whether or not a child's maintenance needs are adequately met depends on the income of the parents rather than on the presence of a disabling condition in the child. The exceptional needs of a blind or disabled child are for medical care and treatment of the disabling condition. Such needs may be a drain on family income or may not be met if the family cannot afford professional care for the child, or if the family is not eligible for medicaid or one of the programs which aid crippled and handicapped children.

SSI is helping low-income families with a disabled child by providing some additional income, but its primary assistance is in eligibility for medical care for the child. An adequate health insurance plan for all families and access to treatment and training facilities are more appropriate than an income supplement for meeting the exceptional needs of disabled children. A child's maintenance needs will be met through the family income support which will be provided by the ABLE plan. Therefore, this bill makes SSI available only to blind and disabled persons age 18 and over. Children under 18, whether or not disabled, would be included in the ABLE family unit. This is consistent with the respective purposes of the two programs, and it avoids the complexities and distortions of attempting to allocate family income when an individual is treated separately from the family unit of which he is a member.

Provision is made for an SSI supplement to the family if total family income will be reduced by the transfer of the child to the ABLE family unit. This is a transitional provision to prevent a sudden loss of income to a family with a blind or disabled child who has been receiving SSI benefits. When a blind or disabled child under age 18, who received SSI benefits in each month of the last quarter of calendar year 1976, is included in an ABLE unit, HEW will make a supplemental payment if necessary to maintain total family income at the December 1976 level. The amount of the supplemental payment in a subsequent month will be the difference between (1) the total of the

SSI benefit and State supplement actually received in December 1976, other family income in December 1976, and 80 percent of any food stamp bonus received in December 1976, and (2) the total of ABLE benefits, net tax credits, and other family income received by family members in a subsequent month. The supplemental payment will be reduced by changes in family income or composition and will terminate when the child reaches age 18, if not terminated for other reasons prior to that time.

SECTION 206—ADDITIONAL TECHNICAL AND CONFORMING AMENDMENTS AND TRANSITIONAL PROVISIONS

The Secretary of Health, Education, and Welfare must submit to Congress by July 1, 1975 a draft of technical and conforming amendments to the Social Security Act and other laws which are necessary due to provisions of this title. This bill assumes that medicaid will be replaced prior to January 1, 1977 by one of the pending proposals to establish a national health insurance program. Thus, this bill will not amend Titles XVIII or XIX of the Social Security Act pending developments in health legislation. The Secretary will consider medicaid, medicare and other health care financing programs in proposing conforming amendments.

SECTION 207—EFFECTIVE DATES

Unless otherwise indicated, provisions of this title will take effect on January 1, 1977.

TITLE III—MISCELLANEOUS AND GENERAL PROVISIONS

SECTION 301—OPTIONAL STATE SUPPLEMENTATION OF ABLE UNITS AND SSI FAMILIES NOT OTHERWISE COVERED

The method used for SSI supplementation (establishing an adjusted payment level and making cash supplemental payments to all beneficiaries) is not appropriate for this program because of the wide differences in the types of families States now aid. Some States help all needy families, but others aid only families eligible under the AFDC categories. A federally sanctioned State program could not permit these extreme variations in coverage. States may wish to assist families with exceptional needs and should be free to devise methods of supplementation for such families. Instead of general supplementation with a Federal hold harmless provision, there should be provision for Federal sharing in the cost of emergency assistance to meet crisis needs. Federal funds should not be used in a way which will encourage perpetuation of the present system with its extreme variations in payment levels and preferential treatment for one-parent families.

Therefore, this bill provides that a State may, at its option, supplement any ABLE units or newly covered dependents and spouses in SSI units, but may not offset earned income against benefits at a rate which, when combined with the offset rate under ABLE or SSI, will exceed 60 percent. States supplementing ABLE may not offset unearned income against benefits at a combined rate in excess of 80 percent except for types of income deducted dollar for dollar by ABLE. These limitations are necessary to preserve the work incentive and equity features of the basic ABLE program.

The cost of this optional supplementation is not covered by the Federal hold harmless provision. If a State imposes excessive offset rates, then the State supplement will be counted as income under ABLE or SSI and offset against ABLE allowances or SSI benefits at a rate of 100 percent. State compliance with this rule will be monitored by HEW, and the Secretary of HEW will report on compliance to the IRS.

SECTION 302—PROHIBITION AGAINST FEDERAL ASSISTANCE TO CHILD-CARE FACILITIES IMPOSING INCOME-RELATED FEES

Child care facilities receiving Federal financial assistance are prohibited from charging fees based on the income of the families being served. The standard employment expense deduction (Section 105) will help defray the costs of child care, including standardized fees, for working mothers. If child care centers were to continue to base fees on income, such sliding-scale fees would add to the recipient's total benefit-loss rate for increased wages, thereby lowering the financial incentive to work.

SECTION 303—AMENDMENTS AND REPEALS OF OTHER LAWS

(a) Both the food stamp and surplus commodity programs will be rendered obsolete by the establishment of universal tax credits and a national system of cash allowances. The food stamp program will be repealed. Public Law 93-86 amended the Food Stamp Act to require that all counties now distributing surplus commodities to low-income families and individuals must switch to the food stamp program. By the effective date of this bill food stamps will have replaced commodity distribution everywhere. This section will prevent any jurisdiction from reinstating the commodity program after food stamps are repealed.

(b) The Bureau of Indian Affairs currently makes assistance payments under its authority to provide Indians with general support. This bill will prevent the BIA from providing financial assistance based on individual or family need, except in the following circumstances:

The BIA must supplement the Federal tax credits and allowances for anyone already receiving BIA aid who would be worse off under this bill. The supplemental amount must include 80 percent of the bonus value of food stamps for persons in receipt of food stamps in December 1976;

The BIA may supplement persons not receiving aid prior to January 1, 1977 in any State offering such supplementation to the non-Indian population. BIA supplemental levels may not exceed the State levels;

The BIA may continue to provide financial assistance based on need to meet emergency situations. Such situations may be determined by the BIA, but such aid may not be provided to any one person or family for more than 3 months of any given calendar year.

(c) Authority for Federal funding of aid to refugees who are resident aliens is repealed. Authority will be retained to aid refugees in

the U.S. who do not have permanent residency status and who, therefore, are not covered under ABLE.

SECTION 304—GARNISHMENT AND SIMILAR PROCEEDINGS TO MEET COURT-ORDERED ALIMONY, CHILD-SUPPORT, AND RENT OBLIGATIONS

The bill provides for attachment and garnishment of Federal pay, military pay and other Federal moneys (including ABLE grants) to meet court-ordered payments for alimony, child-support and rent. The purpose is to put income from Federal sources on a par with private income in these selected legal actions.

TAX CREDITS AND ALLOWANCES ACT OF 1974

A BILL To Amend the Internal Revenue Code of 1954, the Social Security Act, and other laws to provide effective welfare reform by replacing public assistance and food stamps with a system of allowances and refundable credits, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SECTION 1. SHORT TITLE.

This Act may be cited as the "Tax Credits and Allowances Act of 1974".

SEC. 2. PURPOSE.

It is the purpose of this Act to replace or rationalize the many public programs which offer support based on family and individual income (1) by establishing, as a part of the Federal income tax structure, a new system of credits and allowances to increase the equity, strengthen the administration, improve the adequacy, and restore desirable social and economic incentives to income maintenance programs, and (2) by abolishing or modifying the existing public assistance and welfare programs accordingly.

TITLE I—PERSONAL CREDITS, ALLOWANCES FOR BASIC LIVING EXPENSES, AND OTHER TAX PROVISIONS

SEC. 101. AMENDMENT OF 1954 CODE.

Except as otherwise expressly provided, whenever in this title an amendment or repeal is expressed in terms of an amendment to, or repeal of, a section or other provision, the reference shall be considered to be made to a section or other provision of the Internal Revenue Code of 1954.

SEC. 102. TECHNICAL AND CONFORMING CHANGES.

The Secretary of the Treasury or his delegate shall, as soon as practicable but not later than 90 days after the date of the enactment of this Act, submit to the Committee on Ways and Means of the House of Representatives a draft of any technical and conforming changes in the Internal Revenue Code of 1954 which are necessary to reflect throughout such Code the changes in the substantive provisions of law made by this title.

SEC. 103. ALLOWANCE OF CREDIT IN LIEU OF PERSONAL EXEMPTION DEDUCTION; REFUND; PREPAYMENT.

(a) Repeal of Deduction for Personal Exemptions.—Section 151 (relating to allowance of deductions for personal exemptions) is hereby repealed.

(b) Allowance of Personal Credits.—Subpart A of part IV of subchapter A of chapter 1 (relating to credits against tax) is amended

by redesignating section 42 as section 43 and by inserting after section 41 the following new section:

"SEC. 42. PERSONAL CREDITS.

"(a) Allowance of Credits.—There shall be allowed as a credit against the tax imposed by this chapter for the taxable year an amount equal to the sum of the personal credits provided by this section.

"(b) Taxpayer and Spouse.—There shall be allowed a personal credit of \$225 for the taxpayer; and an additional personal credit of \$225 for the spouse of the taxpayer if—

"(1) a joint return is made for the taxable year by the taxpayer and his spouse, or

"(2) a joint return is not made by the taxpayer and his spouse, and if the spouse, for the calendar year in which the taxable year of the taxpayer begins, has no gross income and is not the dependent of another taxpayer.

"(c) Additional Credits for Dependents.—

"(1) In general.—There shall be allowed a personal credit of \$225 for each dependent (as defined in section 152)—

"(A) whose gross income for the calendar year in which the taxable year of the taxpayer begins is less than \$750, or

"(B) who is a child of the taxpayer and who has not attained the age of 19 at the close of the calendar year in which the taxable year of the taxpayer begins.

"(2) Credit denied in case of certain dependents.—No credit shall be allowed under this subsection with respect to any individual—

"(A) who has made a joint return with his spouse under section 6013 for the taxable year beginning in the calendar year in which the taxable year of the taxpayer begins; or

"(B) who has claimed a credit under subsection (b) for himself for the taxable year beginning in the calendar year in which the taxable year of the taxpayer begins.

"(3) Dependency of child to be determined on basis of custody.—For purposes of this subsection, a parent who—

"(A) but for the fact that he did not contribute over half of the support of a child would be entitled to claim such individual as a dependent for a taxable year beginning in a calendar year, and

"(B) has custody of such child for a greater proportion of the calendar year than any other individual or agency, shall be considered as having provided more than half of the support of such child for such year.

"(4) Child defined.—For purposes of paragraph (1) (B), the term 'child' means an individual who (within the meaning of section 152) is a son, stepson, daughter, or stepdaughter of the taxpayer.

"(d) Coordination with Certain Assistance Programs.—

"(1) Credit not to be considered income.—The credit allowed by subsection (a) shall not be considered as income for the determination of eligibility for assistance under any Federal program, except that such allowances shall be considered income for purposes of determining eligibility for—

"(A) benefits under the National School Lunch Act or under the Child Nutrition Act of 1966, or

"(B) benefits under title XIX of the Social Security Act.

"(2) Educational opportunity grant reduction.—Notwithstanding any other provision of law, if for any period there is allowed a payment to or with respect to any individual pursuant to the educational opportunity grant program under part A of title IV of the Higher Education Act of 1965, then payments under such program shall be reduced by an amount equal to an amount, determined under regulations prescribed by the Secretary or his delegate, to represent the amount of any credit allowed by subsection (a) to or with respect to such individual for such period.

"(c) Cross References.—

"(1) For disallowance of credit to estates and trusts, see section 642(a).

"(2) For prepayment of estimated credits to recipients of allowances for basic living expenses provided under subtitle I, see section 6428.

"(3) For additional tax credits for certain individuals ineligible for such allowances under subtitle I, see sections 42 and 9805."

(c) Refund of Excess Credit Available Other Than in Certain Cases.—Section 6401(b) (relating to excessive credits treated as overpayments) is amended—

(1) by striking out "39" and inserting in lieu thereof "34 relating to personal credits) 39";

(2) by striking out "sections 31" and inserting in lieu thereof "sections 31, 34"; and

(3) by adding at the end thereof the following new sentence: "In the case of any credit allowed under section 34 for any individual confined in any penal or correctional institution throughout the taxable year, the computation of any such excess, notwithstanding the preceding sentence, shall be made by treating the amount of credit allowed under section 34 with respect to such individual as a credit allowable under subpart A of part IV of subchapter A of chapter 1 other than under section 31, 34, or 39."

(d) Prepayment of Estimated Personal Credits to Recipients of Allowances for Basic Living Expenses.—

(1) In general.—Subchapter B of chapter 65 of subtitle F (relating to rules of special application for credits and refunds) is amended by adding at the end thereof the following new section:

"SEC. 6428. PERSONAL CREDITS FOR RECIPIENTS OF ALLOWANCES FOR BASIC LIVING EXPENSES.

"(a) General Rule.—An individual entitled to receive an allowance provided under subtitle I (determined without regard to the computation required by section 9803(d)) may, at the time of application under section 9901 for such allowance, elect to receive payment in accordance with subsection (b) with respect to personal credits allowable under section 34.

“(b) Payment of Amounts.—

“(1) Time and method of payment.—Payment under this section to any individual shall be made concurrently and in conjunction with the payment to such individual of allowances under subtitle I.

“(2) Amount of payment.—Payment under this section shall, with respect to each allowance period, be equal to one-twelfth (or one-twenty-fourth in the case of a biweekly allowance payment under section 9902(a)(2)) of the amount of the personal credits the individual reasonably anticipates, based upon the facts and circumstances at the time of election, to be entitled to under section 34 with respect to the taxable year during which such allowance period occurs. Under regulations prescribed by the Secretary or his delegate, such individual shall report, and the Secretary or his delegate shall make appropriate adjustments in future payments under this section for, changes in facts and circumstances which bear on entitlement to, or the amount of, personal credits under section 34.

“(c) Effect of Payment.—In the case of an individual who has elected to receive payment under this section, the sum of the personal credits which such individual (but for this subsection) would be entitled to under section 34 shall be reduced by the amount paid to such individual under this section.

“(d) Regulations.—The Secretary or his delegate shall prescribe such regulations as may be necessary to carry out the purpose of this section.”

(e) Denial of Credit to Estates and Trusts.—Section 642(a) (relating to credits against tax for estates and trusts) is amended by adding at the end thereof the following new paragraph:

“(4) Personal credit.—An estate or trust shall not be allowed the credit against tax provided by section 34.”

(f) Effective Date.—The amendments made by this section shall apply with respect to taxable years beginning after December 31, 1976.

SEC. 104. REPEAL OF LOW INCOME ALLOWANCE.

(a) In General.—Section 141 (relating to standard deduction) is amended to read as follows:

“SEC. 141. STANDARD DEDUCTION.

“(a) Standard Deduction.—The standard deduction referred to in this title is the percentage standard deduction.

“(b) Percentage Standard Deduction.—The percentage standard deduction is an amount equal to 15 percent of adjusted gross income, but not to exceed \$2,000 (or \$1,000 in the case of a separate return by a married individual).

“(c) Limitations in Case of Certain Dependent Taxpayers.—In the case of a taxpayer with respect to whom a credit under section 34(c) is allowable to another taxpayer for the taxable year, the percentage standard deduction shall be computed only with reference to so much of his adjusted gross income as is attributable to his earned income (as defined in section 911(b)).”

(b) Effective Date.—The amendment made by this section shall apply with respect to taxable years beginning after December 31, 1976.

SEC. 105. STANDARD EMPLOYMENT EXPENSE DEDUCTION TO SUBSTITUTE FOR EXISTING HOUSEHOLD AND DEPENDENT CARE EXPENSE DEDUCTION.

(a) Section 214 (relating to expenses for care of certain dependents) is amended to read as follows:

"SEC. 214. STANDARD EMPLOYMENT EXPENSE DEDUCTION.

"(a) Allowance of Deduction.—

"(1) Employed spouse.—In the case of an employed spouse, there shall be allowed as a deduction—

"(A) an amount equal to 10 percent of such spouse's earned income, but not to exceed \$500, or

"(B) if the employed spouse has one or more qualifying dependents, an amount equal to 10 percent of such spouse's earned income, but not to exceed \$1,000.

"(2) Head of household.—In the case of a head of household, there shall be allowed as a deduction—

"(A) if such head of household has one or more related individuals, an amount equal to 10 percent of the earned income of such head of household, but not to exceed \$1,000, or

"(B) if such head of household has one or more qualifying individuals, an amount equal to 20 percent of such earned income, but not to exceed \$1,500.

"(b) Definitions.—For purposes of this section—

"(1) Employed spouse.—The term 'employed spouse' means—

"(A) the lesser compensated spouse, if both spouses are gainfully employed (determined on the basis of each spouse's earned income for the taxable year), or

"(B) any gainfully employed individual whose spouse is a qualifying individual referred to in paragraph (3) (C).

"(2) Head of household.—The term 'head of household' has the meaning given such term by section 2(b).

"(3) Qualifying individual.—The term 'qualifying individual' means—

"(A) a dependent of the taxpayer who is under the age of 15 and with respect to whom the taxpayer is entitled to a credit under section 34,

"(B) a dependent of the taxpayer who is physically or mentally incapable of caring for himself and who resides as a member of the taxpayer's household for more than 180 days, or

"(C) the spouse of the taxpayer, if he is physically or mentally incapable of caring for himself and is a member of the taxpayer's household for more than 180 days.

"(4) Related individual.—The term 'related individual' means a dependent of the taxpayer who is over the age of 15 and under the age of 18 and with respect to whom the taxpayer is entitled to a credit under section 34.

"(5) Earned income.—The term 'earned income' has the meaning given such term by section 911(b)."

(b) Technical Amendment.—Section 62 (relating to definition of

adjusted gross income) is amended by adding at the end thereof the following new paragraph:

"(9) Standard employment expense deduction.—The deduction allowed by section 214."

(c) Effective Date.—The amendments made by this section shall apply to taxable years beginning after December 31, 1976.

SEC. 106. ALLOWANCE FOR BASIC LIVING EXPENSES.

(a) In General.—The Internal Revenue Code of 1954 is amended by adding at the end thereof the following new subtitle:

"Subtitle I—Allowance for Basic Living Expenses

"Chapter 98. Entitlement to allowances.

"Chapter 99. Filing for allowances; administration.

CHAPTER 98—ENTITLEMENT TO ALLOWANCES

"Sec. 9801. Allowance for basic living expenses.

"Sec. 9802. Eligibility for receipt of allowance.

"Sec. 9803. Amount of allowance.

"Sec. 9804. Allowance offset.

"Sec. 9805. Income tax reduction for certain individuals ineligible to receive ABLE allowances.

"SEC. 9801. ALLOWANCE FOR BASIC LIVING EXPENSES.

"Subject to the provisions of this subtitle, every qualified unit shall be entitled to an allowance for basic living expenses.

"SEC. 9802. ELIGIBILITY FOR RECEIPT OF ALLOWANCE.

"(a) Qualified Individual Eligible To File for Allowance.—Any qualified individual who for the allowance period—

"(1) is not a dependent of another individual,

"(2) is at least 18 years of age, or if under such age, is married or has actual primary custody of a dependent child, and

"(3) is not a long-term resident of any mental retardation, mental health, or medical facility, or any nursing home or custodial care facility,

may file application in accordance with section 9901 for the allowance provided under this subtitle. Such application shall be made for the qualified unit, which shall consist of the person so applying, the spouse of such person if such spouse is a qualified individual, and each qualified individual who is a dependent of such person or spouse.

"(b) Qualified Individual.—For purposes of this subtitle, a qualified individual shall be any individual—

"(1) who has a permanent residence for the allowance period within the United States, and resides continuously during such period within the United States;

"(2) who is not confined to any penal or correctional institution during such period;

"(3) is not included within any other qualified unit applying for an allowance for such period; and

"(4) with respect to whom no cash benefit is paid for such period under title VI of the Social Security Act.

"(c) Long-Term Resident.—For purposes of subsection (a), a long-term resident shall be any individual admitted to any facility or

institution either for an indefinite period, or for a specified period in excess of 3 months.

"SEC. 9803. AMOUNT OF ALLOWANCE.

"(a) In General.—A qualified unit's allowance for any allowance period shall be the sum of the maximum allowances specified under subsection (c) with respect to the members of such unit, reduced by the amount of the allowance offset of such unit determined in accordance with section 9804.

"(b) Amount of Alternate Annual Allowance.—Notwithstanding subsection (a), the amount of the allowance provided under this subtitle in the case of any qualified unit applying for an alternate annual allowance under section 9901(b) shall be equal to the sum of the maximum allowances specified under subsection (c) for each allowance period (within the annual period) for which such unit was eligible, reduced by the amount of such unit's allowance offset, determined in accordance with section 9804, for each such allowance period.

"(c) Maximum Allowances Available.—For purposes of this section, the maximum allowance with respect to a member of a qualified unit shall be equal to one-twelfth of the appropriate annual amount shown in the following table:

	<i>The annual amount shall be—</i>
"If the unit member is a:	
Single filer.....	\$825
Head of household filer.....	1,225
Married filer.....	1,025
Spouse of the filer.....	1,025
Dependent adult.....	825
Dependent child.....	325
Second dependent child.....	325
Third dependent child.....	225
Fourth dependent child.....	225
Fifth dependent child.....	225
Sixth dependent child.....	225

"(d) Annual Recomputation.—

"(1) Recomputation of allowance.—If for the taxable year covered by the return required to be made by section 9901(d)—

"(A) the offset income received by an individual during any allowance period during such year is more or less than the offset income which was the basis for the computation of an allowance received by or with respect to such individual, then the amount of such allowance shall be recomputed on the basis of the offset income so received; and

"(B) the actual status of any individual to whom or with respect to whom an allowance was paid for any such allowance period varied from the status on which the determination of the allowance was based, then the amount of the allowance shall be recomputed on the basis of the actual status of such individual.

"(2) Effect of recomputation.—The amount by which the allowance received for an allowance period is more than or less than the recomputed allowance shall be considered an allowance overpayment or underpayment, as the case may be.

"SEC. 9804. ALLOWANCE OFFSET.

"(a) In General.—For purposes of this subtitle, the allowance offset of any qualified unit shall be an amount equal to the sum of—

"(1) 50 percent of so much of the offset income received by members of the qualified unit during the base period as consists of—

"(A) earned income, and

"(B) loans from the Commodity Credit Corporation;

"(2) 80 percent of so much of the offset income so received as is attributable to the reduction of such qualified unit's rental or mortgage costs under any public housing subsidy program;

"(3) 100 percent of so much of the offset income so received as consists of—

"(A) cash benefits received—

"(i) as a pension provided under laws administered by the Veterans' Administration;

"(ii) under any public agricultural subsidy program; and

"(B) any overpayment of the tax imposed by chapter 1; and

"(4) 67 percent of so much of offset income so received as is not specified under paragraphs (1), (2), and (3).

"(b) Carryover of Excess Allowance Offset.—

"(1) General rule.—The excess of the allowance offset of a qualified unit for an allowance period over such unit's maximum allowance, as specified in section 9803(c), shall be treated as an allowance offset of such unit—

"(A) in each of the 11 succeeding allowance periods, in order of time; or

"(B) in each of the 23 succeeding allowance periods, in order of time, in the case of a qualified unit any member of which was required for the last completed taxable year to file a self-employment tax return under section 6017;

but with respect to any such succeeding allowance period only to the extent of the lesser of the two following amounts:

"(i) the amount by which the maximum allowances of such qualified unit for such succeeding period exceeds such unit's allowance offset for such succeeding period (determined without regard to any carryover under this subsection); or

"(ii) in the case of the first succeeding allowance period, the amount of the excess allowance offset, and in the case of each following succeeding period, the portion of such excess allowance offset not treated under this subsection as an allowance offset for any prior allowance period.

"(2) Inclusion and carryover of previously received offset income.—The Secretary or his delegate shall prescribe regulations which provide that so much of offset income received by an individual while not a member of the qualified unit during any calendar month in the 12 calendar month period (or 24 calendar month period in the case of an individual described in paragraph (1)

(B)) preceding the base period as is not deemed under such regulations necessary to meet the basic living expenses of such individual for any such month or succeeding months shall (to the extent provided in subsection (a)) be considered an allowance offset in succeeding months in accordance with paragraph (1).

"(3) Exclusion where offset income recipient leaves unit.—In the case of offset income which was received by an individual who is not a member of the qualified unit for the allowance period and which (but for this paragraph) would be included in the amount which would be considered in the calculation of such unit's allowance offset for such period, the amount of such allowance offset shall be determined by disregarding the offset income so received by such individual.

"(c) Offset Income.—

"(1) In general.—For purposes of this section, the term 'offset income' means the adjusted gross income (within the meaning of section 62) reduced by any amount deducted and withheld from wages under subtitle C (relating to employment taxes), and increased by so much of the following items as is not otherwise included in adjusted gross income:

"(A) all amounts received as an annuity, pension, or any retirement benefit;

"(B) so much of the sum of all prizes and awards received as each year exceeds \$250;

"(C) so much of the proceeds from life insurance contracts as exceeds \$1,500 with respect to any one insured individual;

"(D) so much of the sum of all gifts as each year exceeds \$250, except there shall not be included any gift from a member of the same qualified unit;

"(E) so much of the sum of the fair market value of all property inherited from any individual as exceeds \$1,000, except there shall not be included the value of real property if used as the primary residence of the qualified unit, nor shall there be included the value of any property inherited from a spouse;

"(F) all support and alimony payments;

"(G) interest on any tax-exempt government obligation;

"(H) damages, insurance payments, workmen's compensation payments, or other payments, made—

(i) for medical expenses,

(ii) for loss of wages or income, or

(iii) for physical, mental, or other personal injuries or sickness,

which do not constitute reimbursement for medical expenses paid;

"(I) the rental value of parsonages;

"(J) combat pay and mustering-out payments to any member of the Armed Forces of the United States;

"(K) dividends, other than insurance policy dividends applied by the insurer to reduce insurance premiums;

"(L) any public or private scholarship or fellowship;

"(M) meals and lodging supplied by an employer if and to the extent supplied at less than fair market value, without regard to whether supplied for the convenience of the employer;

"(N) any allowance for quarters or subsistence, or gratuity pay, paid to any member of the Armed Forces of the United States;

"(O) so much of the current or accumulated income of a trust or estate which could, within the discretion of any person with a nonadverse interest, be paid to an individual as beneficiary of such trust or estate as exceeds \$3,000, except there shall not be included any amount in fact paid to any person other than such individual nor any amount previously included in adjusted gross income by reason of this subparagraph;

"(P) the entire gain from the sale or exchange of any capital asset;

"(Q) unemployment compensation, without regard to the source thereof;

"(R) strike benefits from any union or other agency or organization;

"(S) cash benefits pursuant to title II of the Social Security Act;

"(T) cash benefits under the Railroad Retirement Act of 1935 or 1937;

"(U) cash benefits (including readjustment benefits) under the laws administered by the Veterans' Administration;

"(V) income from foreign sources;

"(W) loans from the Commodity Credit Corporation;

"(X) imputed income from capital as determined in accordance with paragraph (2);

"(Y) overpayments of the tax imposed by chapter 1;

"(Z) the amount of the reduction of such qualified unit's rental or mortgage costs under any public housing subsidy program; and

"(AA) cash benefits under the Coal Mine Health and Safety Act.

No amount of income or property given by any public agency or private charitable organization, if given on the basis of need, shall be considered a gift referred to in subparagraph (D) or a support payment referred to in subparagraph (F).

"(2) Income imputed from assets.—

"(A) In general.—The amount included in offset income under paragraph (1)(X) shall be an amount equal to one-twelfth of the annual imputed income with respect to the total value of capital (appraised in accordance with subparagraph (C)) owned or controlled by members of the qualified unit computed in accordance with the following table, re-

duced by the amount (if any) of actual offset income with respect to such capital which is received by such members:

"If the total appraised value of capital owned or controlled by the qualified unit is: The annual income to be imputed with respect to such capital shall be:

Less than \$10,000-----	\$0.
At least \$10,000 but less than \$20,000	\$100.
At least \$20,000 but less than \$30,000	\$200.
At least \$30,000 but less than \$40,000	\$300.
At least \$40,000 but less than \$50,000	\$800.
At least \$50,000 but less than \$60,000	\$1,300.
At least \$60,000 but less than \$70,000	\$1,800.
At least \$70,000-----	\$2,800 plus 10 percent of value of capital in excess of \$70,000.

"(B) Capital owned or controlled by member.—For purposes of this subsection, the capital owned or controlled by any member of a qualified unit shall be all of the real or personal property owned or controlled by such member (whether tangible or intangible) wherever situated, to the extent of such member's interest therein.

"(C) Appraisal of capital.—The appraisal of capital shall be made, under regulations prescribed by the Secretary or his delegate, at the time of initial application for an allowance under this subtitle, and such other times as may be prescribed under such regulations, on the basis of all capital owned or controlled at such time.

"(D) Valuation.—

"(i) Measure of value.—Under regulations prescribed by the Secretary or his delegate, the value of capital for purposes of this subsection shall be its fair market value. In the case where fair market value is not readily ascertainable, methods shall be prescribed for approximating the value. The value of capital shall be determined without regard to any mortgage, security interest, or any indebtedness with respect to such capital.

"(ii) Capital held jointly.—In the case of capital held jointly, whether or not partitionable, such capital shall be treated for purposes of this paragraph as if owned or controlled in separate proportional shares.

"SEC. 9805. INCOME TAX REDUCTION FOR CERTAIN INDIVIDUALS INELIGIBLE TO RECEIVE ABLE ALLOWANCES.

"(a) Income Tax Reduction.—If, for the taxable year—

"(1) an individual meets the requirements set forth under section 9802(a) for filing for an allowance under this subtitle.

"(2) the sum of the allowance offsets (as defined in section 9804) for—

"(A) such individual,

"(B) the spouse of such individual if such spouse is a

qualified individual (within the meaning of section 9802(b)), and

“(C) each dependent of such individual who is a qualified individual (within the meaning of such section), exceeds the sum of the maximum annual amounts indicated under section 9803 with respect to such individual, spouse, and dependents, and

“(3) the amount of liability for tax imposed under chapter 1 (computed without regard to the credit allowed under section 31) with respect to such individual, spouse, and dependents exceeds the amount of the excess determined under paragraph (2), then such individual shall be allowed as a credit under section 34 an amount equal to the amount of the excess determined under paragraph (3).

“(b) Limitation.—No credit shall be allowed under section 34 to any individual whose spouse or dependent has claimed a credit under such section for the taxable year beginning in the calendar year in which the taxable year of the individual begins.

“CHAPTER 99—FILING FOR ALLOWANCES; ADMINISTRATION

“Sec. 9901. Filing for allowances; returns, records, and information.

“Sec. 9902. Payment of allowances.

“Sec. 9903. Regulations; overpayment or underpayment.

“Sec. 9904. Definitions and special rules.

“Sec. 9905. Coordination with other assistance programs.

“Sec. 9906. Annual reports; authorization for appropriations.

“SEC. 9901. FILING FOR ALLOWANCES; RETURNS, RECORDS, AND INFORMATION.

“(a) Application for Allowance.—Application for any allowance provided under this subtitle for an allowance period shall be made in such manner as the Secretary or his delegate shall by regulation prescribe. Such application shall be filed no later than 14 days after the first day of the allowance period with respect to which application is made.

“(b) Application for Alternate Annual Allowance.—Under such regulations as the Secretary or his delegate shall prescribe, any qualified individual eligible to file for application under section 9802(a) may, with respect to a qualified unit which—

“(1) did not receive an allowance for any period during the last taxable year ending before such application;

“(2) was a qualified unit for one or more allowance periods during such taxable year; and

“(3) no member of which was a member of any other qualified unit which received an allowance for any period during such taxable year;

apply for such allowance with respect to each of the allowance periods during such taxable year in an amount determined in accordance with section 9803. Application for such allowance shall be filed not later than the last day prescribed under section 6072 for the filing of income tax returns.

“(c) Content of Application.—Each application made under this section shall contain—

"(1) such information for determining eligibility for the allowance as the Secretary or delegate shall by regulation prescribe:

"(2) an information return reporting offset income received during the base period, and such related information as shall be prescribed by such regulations; and

"(3) such other information with respect to such period, or any preceding period, as may be required under such regulations.

"(d) Returns, Records, and Information.—Each individual who has received an allowance during his taxable year shall file in accordance with section 6012 or 6013 (without regard to the amount of income during such year) a return with respect to the income taxes imposed under subtitle A, together with a supplemental return regarding income received by members of the qualified unit with respect to which such allowance was paid. Such returns shall contain such additional information as may be required for the recomputation of allowances under section 9803(d), and shall be filed within the time indicated in section 6072 for filing income tax returns. Each individual who is receiving or has received any such allowance shall keep such records, make such other returns, and furnish such information with respect to such allowance as the Secretary or his delegate shall prescribe by regulation.

"SEC. 9902. PAYMENT OF ALLOWANCES.

"(a) Time of Payment.—

"(1) In general.—Allowances provided under this subtitle shall be paid before the end of each allowance period for which application has been properly made.

"(2) Biweekly payment.—If the individual making application elects (at such time and in such manner as the Secretary or his delegate shall by regulation prescribe) to a biweekly payment of allowance, one-half of such allowance shall be paid in accordance with paragraph (1) and one-half shall be paid before the 15th day thereafter.

"(3) Alternate allowance payment.—Alternate allowances shall be paid not later than 60 days after the last day specified under section 9901 for filing application therefor.

"(b) Form of Payment.—

"(1) In general.—Allowances under this subtitle for a qualified unit shall be paid to the individual who made application under section 9901, except that if the Secretary or his delegate deems it appropriate, such payment may be made to any other person (including an appropriate public or private agency) who is interested or concerned with the welfare of such qualified unit.

"(2) Payment in case of married individual.—

"(A) In general.—In the case of any married individual, payment of any allowance provided under this subtitle shall, subject to the exception set forth in paragraph (1), be made jointly to such individual and the spouse of such individual, if both are members of the same qualified unit.

"(B) Voluntary allocation of allowance.—An individual and his spouse who are both members of the same qualified unit, if entitled to an allowance under this subtitle may, sub-

ject to the exception set forth in paragraph (1), jointly elect (under regulations prescribed by the Secretary or his delegate) to each receive separate partial payment of such allowance in such proportion as they shall designate under such election. A separate election may be made by any married individual whose spouse has been continuously absent from the household for the four week period preceding the week during which such election is made.

"SEC. 9903. ADMINISTRATION; OVERPAYMENT OR UNDERPAYMENT.

"(a) In General.—For purposes of administering this subtitle, the Secretary or his delegate shall prescribe such regulations as he finds necessary to carry out the purposes of this subtitle, and shall establish administrative procedures under such regulations based upon, and to the extent he deems appropriate, integrated with, the procedures existing for the administration of this title.

"(b) Overpayment or Underpayment of Allowance.—Whenever the Secretary or his delegate finds that more or less than the correct amount of allowance has been paid with respect to any qualified unit, proper adjustment or recovery shall, subject to the succeeding provisions of this subsection, be made by appropriate adjustments in future payments to members of such qualified unit, or by recovery from or payment to such members (or recovery from the estate of any such member). The Secretary or his delegate shall make such provision as he finds appropriate in the case of payment of more than the correct amount of allowance with a view to avoid penalizing any individual who was without fault in connection with the overpayment, if adjustment or recovery on account of such overpayment in such case would defeat the purposes of this subtitle, or would impede efficient or effective administration of this subtitle. No reduction in any allowance payment of a qualified unit made for the purpose of collecting an overpayment of any preceding allowance may exceed one-fourth of the sum of—

"(1) the amount of such payment, and

"(2) the offset income of such unit with respect to which such payment was determined.

"(c) Hearings and Review.—

"(1) In general.—The Secretary or his delegate shall provide reasonable notice and opportunity for a hearing to any individual who is or claims to be an individual eligible for receipt of an allowance under this subtitle and is in disagreement with any determination under this title with respect to eligibility of or receipt by such individual of such an allowance, or the amount of such allowance, if the individual requests a hearing on the matter in disagreement within thirty days after notice of such determination is received.

"(2) Time of determination.—A determination on the basis of such hearing shall be made within 90 days after the individual requests the hearing provided in paragraph (1).

"(3) Review.—The final determination of the Secretary or his delegate after a hearing under paragraph (1) shall be subject to judicial review to the same extent as a decision of the Secretary of Health, Education, and Welfare may be reviewed under sec-

tion 205(g) of the Social Security Act; except that the determination of the Secretary or his delegate after such hearing as to any fact shall be final and conclusive and not subject to review by any court.

"SEC. 9904. DEFINITIONS AND SPECIAL RULES.

"(a) Definitions.—For purposes of this subtitle—

"(1) Adult.—The term 'adult' means any individual who has attained 18 years of age.

"(2) Child.—The term 'child' means any child, as defined in section 34(c)(4), who has not attained 18 years of age.

"(3) Allowance period.—The term 'allowance period' means any calendar month for which application is made for an allowance under this subtitle.

"(4) Base period.—The term 'base period' means the calendar month immediately preceding an allowance period.

"(5) United States.—The term 'United States' includes the District of Columbia, Guam, Puerto Rico, and the Virgin Islands.

"(6) Dependent.—The term 'dependent' has the meaning given such term by section 152.

"(7) Head of household.—The term 'head of household' has the meaning given such term by section 2(b).

"(8) Foreign.—The term 'foreign', when applied to income, means income earned by sources outside the 50 States and the District of Columbia.

"(9) Earned income.—The term 'earned income' has the meaning given such term by section 911(b).

"(b) Special Rules.—For purposes of this subtitle—

"(1) Qualification as dependent or head of household.—Any determination of whether an individual is a dependent or a head of household shall be on the basis of the allowance period (or each allowance period) for which an allowance is sought, rather than on the basis of any other period. For purposes of any such determination, all amounts received by an individual under this subtitle shall be considered to be income of such individual although computed, in part, on the basis of any other member of the qualified unit.

"(2) Marital status.—

"(A) Period for determination.—Any determination of whether an individual is married shall be as of the beginning of any allowance period in question.

"(B) Certain individuals not considered married.—Any individual—

"(i) who is legally separated from his spouse under a decree of divorce or a decree or agreement of separate maintenance; or

"(ii) who files a statement that such individual's spouse has been continuously absent from such individual's household for the 4-week period preceding the week during which such statement is filed, and that there is no reasonable expectation such spouse will return:

shall not be considered as married.

"(C) Certain individuals considered married.—Any individual—

"(i) who shares a household with an individual who, but for this subparagraph, would not be considered his spouse, and

"(ii) who, with such individual, has custody of a child born of such couple;
shall be considered married.

"SEC. 9905. COORDINATION WITH OTHER ASSISTANCE PROGRAMS.

"Notwithstanding any other provision of law, if an allowance is provided or a credit allowed under this subtitle to or with respect to any individual for any period for which a payment is made to or with respect to such individual pursuant to the educational opportunity grant program under part A of title IV of the Higher Education Act of 1965, then payments under such program shall be reduced by an amount equal to an amount, determined under regulations prescribed by the Secretary or his delegate, to represent the amount of the allowance which was so provided or the credit which was so allowed.

"SEC. 9906. ANNUAL REPORTS; AUTHORIZATION FOR APPROPRIATIONS.

"(a) Annual Report.—The Secretary shall prepare and transmit to the Congress an annual report on the operation and administration of this subtitle which shall include his evaluations thereof and such recommendations for additional legislation as he may deem appropriate.

"(b) Authorization for Appropriations.—

"(1) In general.—There are authorized to be appropriated, out of any money in the Treasury not otherwise appropriated, such sums as may be necessary to carry out the provisions of this subtitle.

"(2) Research into improved administration.—There is authorized to be appropriated, out of any money in the Treasury not otherwise appropriated, with respect to any fiscal year for research into improved administration of this subtitle, and for program evaluation and collection of data and statistics related to such administration, an amount not to exceed one-half of one percent of the amount determined by the Secretary to have been paid as allowances under this subtitle during the preceding fiscal year."

(b) Technical Amendment Relating to Section 9805 Tax Reduction.—

(1) In general.—Subpart A of part IV of subchapter A of chapter 1 (relating to credits against tax), as amended by section 103 of this Act, is further amended by redesignating section 42 as section 43 and by inserting after section 41 the following new section:

"SEC. 42. CERTAIN INDIVIDUALS INELIGIBLE FOR ABLE ALLOWANCES.

"(a) General Rule.—In the case of an individual referred to in subsection (a)(1) of section 9805, there shall be allowed a credit against the tax imposed by this chapter to the extent provided in such section.

"(b) Regulations.—The Secretary or his delegate shall prescribe such regulations as may be necessary to carry out the purposes of this section and section 9805."

(c) Refund of Excess Credit Available.—Section 6401 (b) (relating to excessive credits treated as overpayments), as amended by section 103(c) of this Act, is further amended—

(1) by striking out "and 677(b)" and inserting in lieu thereof "42 (relating to certain individuals ineligible for ABLE allowances) and 677(b)", and

(2) by striking out "and 39" and inserting in lieu thereof "39, and 42".

(d) Effective Date.—The amendment made by this section shall be effective on and after January 1, 1977.

SEC. 107. INDIVIDUALS RECEIVING ALLOWANCES FOR BASIC LIVING EXPENSES NOT TO BE TAXED ON INCOME.

(a) In General.—Part III of subchapter A of chapter 1 (relating to items specifically excluded from gross income) is amended—

(1) by redesignating section 124 as section 125, and

(2) by inserting immediately after section 123 the following new section:

"SEC. 124. INCOME OF RECIPIENTS OF ALLOWANCES FOR BASIC LIVING EXPENSES.

"(a) In General.—For purposes of the tax imposed under this chapter, gross income does not include amounts received which would be included in gross income, (but for this section) if received by an individual during any allowance period for which he was a member of a qualified unit, if such unit—

"(1) received for such period an allowance under subtitle I, and

"(2) after recomputation as provided under section 9803(d), was entitled to such allowance.

"(b) Meaning of Terms.—For purposes of this section, the terms 'allowance period' and 'qualified unit' have the meaning given such terms in section 9904(a)."

(b) Income Not To Be Subject to Withholding Tax.—Section 3401(a) (relating to definition of wages for purpose of collection of income tax at source) is amended by striking out the period at the end of paragraph (16) and inserting in lieu thereof "; or", and by adding at the end thereof the following new paragraph:

"(17) for services, if at the time of the payment of such remuneration it is reasonable to believe that such remuneration will be excluded from gross income under section 124."

(c) Effective Date.—The amendments made by this section shall apply with respect to taxable years beginning after December 31, 1976.

TITLE II—PUBLIC ASSISTANCE AND WELFARE REFORM

SEC. 201. MANDATORY STATE SUPPLEMENTATION FOR FORMER AFDC RECIPIENTS.

Title IV of the Social Security Act is amended to read as follows:

"TITLE IV—MANDATORY STATE SUPPLEMENTATION FOR CERTAIN FAMILIES WITH DEPENDENT CHILDREN

"STATE AGREEMENTS

"SEC. 401. (a) In order for any State to be eligible for payments pursuant to title VI, with respect to expenditures for any quarter beginning after December 1976, such State must have in effect an agreement with the Secretary of Health, Education, and Welfare (hereinafter in this title referred to as the 'Secretary') whereby the State will provide to individuals residing in the State who were receiving aid to families with dependent children under part A of this title as in effect immediately prior to the effective date of the Tax Credits and Allowances Act of 1974, and who would otherwise suffer a reduction in family income by reason of the amendments made by such Act, supplementary payments in the amounts needed to maintain their total family income (for any month) at the level at which it would be (for such month) if the applicable State plan approved under part A of this title as in effect in December 1976 had continued in effect, as determined under the succeeding provisions of this title.

"(b) Any agreement entered into by a State pursuant to subsection (a) shall provide that any individual who for each month in the fourth quarter of the calendar year 1976 was a recipient of (and was eligible to receive) aid to families with dependent children under the plan of such State approved under part A of this title as then in effect (including any person whose needs were taken into account in determining the need of such recipient) shall be entitled to receive from the State (for the period specified in section 403) supplementary payments determined as provided in section 402.

"ELIGIBILITY FOR AND AMOUNT OF SUPPLEMENTARY PAYMENTS

"SEC. 402. (a) The supplementary payment referred to in section 401(b) which shall be paid for any month to any family entitled thereto under an agreement entered into pursuant to section 401(a) shall be an amount equal to the amount by which such family's 'December 1976 income' (as determined under subsection (b)) exceeds the amount of such individual's 'ABLE or SSI benefit plus other income' (as determined under subsection (c)) for such month.

"(b) For purposes of subsection (a), a family's 'December 1976 income' is an amount with respect to any month after 1976 equal to the sum of—

"(1) the amount (as determined by the Secretary) of any payments of aid to families with dependent children which would be made to such family for such month under the applicable State plan approved under part A of this title as in effect for December 1976 if such plan had continued in effect through such month;

"(2) any supplemental security income benefit paid to a member of such family for December 1976 under title XVI of this Act;

"(3) any State supplementary payments made to members of such family for December 1976 under an agreement entered into pursuant to section 1616 of this Act or section 212(a) of Public Law 93-66;

"(4) an amount equal to 80 percent of the bonus value of the family's food stamps for December 1976 (as determined under subsection (d)); and

"(5) the total amount of the other income of such family for such month after 1976.

"(c) For purposes of subsection (a), a family's 'ABLE or SSI benefit plus other income' for any month (after 1976) is an amount equal to—

"(1) in the case of a family entitled for such month to a supplemental security income benefit under title XVI, the sum of—

"(A) the amount of such supplemental security income benefit for such month;

"(B) the total of the net tax credits which are allowed such family for the taxable year in which such month falls, and which are attributable to such month in accordance with regulations prescribed by the Secretary of the Treasury or his delegate, under sections 42 and 6428 of the Internal Revenue Code of 1954 (as added by the Tax Credits and Allowances Act of 1974); and

"(C) the total amount of the other income of such family for such month; or

"(2) in the case of any other family, the sum of—

"(A) the allowance paid to such family (as a qualified unit) for such month under subtitle I of the Internal Revenue Code of 1954 (relating to allowance for basic living expenses);

"(B) the total of the net tax credits which are allowed such family for the taxable year in which such month falls, and which are attributable to such month in accordance with regulations prescribed by the Secretary of the Treasury or his delegate, under sections 42 and 6428 of the Internal Revenue Code of 1954 (as added by the Tax Credits and Allowances Act of 1974); and

"(C) the total amount of the other income of such family for such month.

"(d) For purposes of subsection (b)(4), the 'bonus value of a family's food stamps' for the month of December 1976 (with respect to a family in any State) is the amount by which—

"(1) the face value of the coupon allotment made to such family's household under the Food Stamp Act of 1964 for such month, exceeds

"(2) the charge which such family paid for such coupon allotment.

The total face value of food stamps and the cost thereof for the month of December 1976 shall be determined in accordance with rules prescribed by the Secretary of Agriculture in effect in such month.

"(e) The determinations necessary for purposes of this section shall be made and published by the Secretary of Health, Education, and Welfare during the calendar quarter beginning October 1, 1976.

"PERIOD OF SUPPLEMENTATION

"SEC. 403. Supplementary payments to any family under an agreement entered into pursuant to section 401 (a) shall be made for a period of 24 months, unless such family's entitlement to such payments terminates prior to the end of such period by reason of changes in its 'ABLE or SSI benefit plus other income' (as determined under section 402(c)) or other changes in the circumstances creating such entitlement.

"LIMITATION ON FISCAL LIABILITY OF STATES FOR SUPPLEMENTATION

"SEC. 404. (a) If the total amount of the supplementary payments made by a State pursuant to its agreement entered into under section 401 during the calendar year 1977 or 1978 exceeds the non-Federal share of the expenditures made by the State in 1976 as aid to families with dependent children, the Secretary shall pay to the State, at such time or times and in such manner (in advance or by way of reimbursement) as may be appropriate, an amount equal to such excess.

"(b) For purposes of subsection (a), the term 'non-Federal share of the expenditures made by the State in 1976 as aid to families with dependent children' means the difference between—

"(1) the total expenditures made in the four quarters in the calendar year 1976 under the plan of such State approved under part A of this title as then in effect for aid to families with dependent children, and

"(2) the total amount determined under section 403 (as then in effect) for such State with respect to such expenditures in such quarters.

"(c) There are authorized to be appropriated such sums as may be necessary for purposes of this section."

SEC. 202. BENEFITS UNDER SUPPLEMENTAL SECURITY INCOME PROGRAM FOR AGED, BLIND, AND DISABLED INDIVIDUALS AND THEIR FAMILIES.

(a) The heading of title XVI of the Social Security Act is amended by adding "AND THEIR FAMILIES" after "DISABLED".

(b) Section 1611(a) of such Act is amended to read as follows:

"DEFINITION OF ELIGIBLE INDIVIDUAL

"(a) Any aged, blind, or disabled individual whose income (other than income excluded pursuant to section 1612(b)), together with the income (other than income so excluded) of any other person who is a member of his or her family within the meaning of section 1614(g), is at a rate (for the calendar year involved) of not more than—

"(1) \$1,752, plus

"(2) an amount equal to the total of the annual amounts specified in section 9803(c) of the Internal Revenue Code of 1954 for all other persons who are members of his or her family within the meaning of section 1614(g),

shall be an eligible individual for purposes of this title."

(c) Section 1611(b) of such Act is amended to read as follows:

"AMOUNT OF BENEFITS

"(b) The benefit under this title for any eligible individual shall be payable (for any calendar year) at the rate of—

"(1) \$1,752, plus

"(2) an amount equal to the total of the annual amounts specified in section 9803(c) of the Internal Revenue Code of 1954 for all persons who are members of his or her family within the meaning of section 1614(g), reduced by the amount of the income, not excluded pursuant to section 1612(b), of such individual and all other persons who are members of his or her family within the meaning of section 1614(g)."

(d) Section 1611(e) of such Act is amended—

(1) by striking out "or eligible spouse" in paragraphs (1) (A), (2), and (3) (A); and

(2) by striking out paragraph (1) (B) and inserting in lieu thereof the following:

"(B) In determining the rate at which the benefit under this title is payable to an eligible individual for a month in any case where such individual, or any other person who is a member of his or her family within the meaning of section 1614(g), is, throughout such month, in a hospital, extended care facility, nursing home, or intermediate care facility, there shall be substituted for the amount specified with respect to such individual or person in paragraph (1) or (2) of subsection (b) an amount equal to the lesser of \$300 or one-third of the amount so specified."

(e) (1) Section 1611(f) of such Act is amended—

(A) by inserting "or a member of a family" after "individual" where it first appears; and

(B) by striking out "(and no person shall be considered the eligible spouse of an individual for purposes of this title with respect to any month during all of which such person is outside the United States)".

(2) Section 1611(g) of such Act is repealed.

(3) Section 1611(h) of such Act is amended—

(A) by striking out "or any individual and his spouse (as the case may be)" in the matter preceding paragraph (1);

(B) by striking out "or they" in paragraphs (2) and (3);

(C) by striking out "or an eligible spouse" in paragraph (4); and

(D) by striking out "or they" in the matter following paragraph (4).

(f) Section 1612(a) (2) (A) of such Act is amended—

(1) by striking out "(and his eligible spouse, if any)"; and

(2) by striking out "(and spouse)" each place it appears.

(g) Section 1612(a) (2) of such Act is further amended—

(1) by striking out "and" after subparagraph (E);

(2) by striking out the period at the end of subparagraph (F) and inserting in lieu thereof "; and"; and

(3) by adding at the end thereof the following new subparagraph:

"(G) the excess of the income inputted from capital over the actual income received from such capital, as determined under section 9804(c)(2) of the Internal Revenue Code of 1954."

(h) Section 1612(b) of such Act is amended—

(1) by striking out "(and his eligible spouse)" in the matter preceding paragraph (1) and inserting in lieu thereof "(including the eligible individual and any other person who is a member of his or her family within the meaning of section 1614(g))";

(2) by striking out "such individual (and such spouse, if any)" each place it appears in paragraph (3) and inserting in lieu thereof "the eligible individual and each such other person";

(3) by striking out "such individual (or such spouse)" in subparagraphs (A), (B), and (C) of paragraph (4) and inserting in lieu thereof in each instance "the eligible individual";

(4) by striking out "(or such spouse)" in paragraph (5);

(5) by striking out "(or spouse)" in paragraph (8);

(6) by inserting after paragraph (8) the following new paragraph:

"(9) any credit under section 42 or 6428 of the Internal Revenue Code of 1954:"; and

(7) by redesignating paragraphs (9) and (10) as paragraphs (10) and (11), respectively.

(i) Section 1613 of such Act is repealed.

(j) (1) Section 1614(a)(1)(A) of such Act is amended by striking out "is blind (as determined under paragraph (2)), or disabled" and inserting in lieu thereof "or has attained 18 years of age and is blind (as determined under paragraph (2)) or disabled".

(2) Section 1614(a)(3)(A) of such Act is amended by striking out "(or, in the case of a child under the age of 18, if he suffers from any medically determinable physical or mental impairment of comparable severity)".

(k) Section 1614(b) of such Act is amended to read as follows:

"ELIGIBLE INDIVIDUAL AND SPOUSE

"(b) For purposes of this title, if two aged, blind, or disabled individuals are husband and wife, only one of them may be an 'eligible individual' within the meaning of section 1611(a)."

(1) Section 1614(c) of such Act is amended to read as follows:

"DEFINITION OF CHILD

"(c) For purposes of this title, the term 'child' (with respect to any eligible individual) means an unmarried individual under the age of 18 who is a dependent of such individual within the meaning of section 152 of the Internal Revenue Code of 1954, and who (1) is the natural or adopted child of such eligible individual or his or her spouse and is living in the home of such eligible individual, or (2) is in the care of such eligible individual or spouse. For purposes of the preceding sentence, a child (other than a natural or adopted child) is in the care of an eligible individual or spouse if such child is living

in the home of such an eligible individual and his or her natural or adoptive parents are not living in the same household."

(m) Section 1614(f) of such Act is amended to read as follows:

"INCOME OF PERSONS OTHER THAN ELIGIBLE INDIVIDUALS

"(f) For purposes of determining eligibility for and the amount of benefits under this title in the case of any individual whose household includes one or more other persons who are members of his or her family within the meaning of subsection (g), the income of each such other person shall be included whether or not available to such individual."

(n) Section 1614 of such Act is amended by adding at the end thereof the following new subsection:

"FAMILY MEMBERS

"(g) For purposes of this title, the family of an eligible individual shall consist only of such individual, his or her spouse (if any), and his or her children (as defined in subsection (c)); except that any child who is placed in the home of an eligible individual by a public or non-profit private child-placement or child-care agency, and with respect to whom foster care payments are made, shall not be included as a member of such individual's family."

(o) Section 1615(c) of such Act is amended by striking out "or eligible spouse".

(p) Section 1616(e) of such Act is amended by striking out "in the case of any State" and all that follows and inserting in lieu thereof a period.

(q) Section 1631(a) (2) of such Act is amended—

(1) by striking out "eligible" where it first appears;

(2) by striking out "(or spouse)" each place it appears; and

(3) by striking out "or eligible spouse".

(r) Section 1631(b) of such Act is amended—

(1) by striking out "or his eligible spouse (or by recovery from the estate of either)" in the first sentence and inserting in lieu thereof "(or his estate)"; and

(2) by striking out "or his eligible spouse" in the second sentence.

(s) (1) Section 1631(c) (1) of such Act is amended by striking out "or eligible spouse".

(2) Section 1631(e) (1) (B) of such Act is amended by striking out "(or eligible spouses)".

(t) Section 1634 of such Act is repealed.

(u) (1) Section 211(a) (1) (A) of Public Law 93-66 is amended by striking out "subsection (a) (1) (A) and (2) (A), and subsection (b) (1) and (2), of section 1611 of such Act," and inserting in lieu thereof "subsections (a) (1) and (b) (1) of section 1611 of such Act".

(2) Section 211(a) (1) (C) of Public Law 93-66 is amended by striking out clause (ii).

(3) Section 211(a) (2) of Public Law 93-66 is repealed.

(4) Section 211(c) (4) of Public Law 93-66 is amended to read as follows:

"(4) is not the spouse of such individual or of any other qualified individual."

SEC. 203. SERVICES FOR FAMILIES AND CHILDREN.

(a) The heading of title VI of the Social Security Act is amended by adding at the end thereof the following: "AND FOR SERVICES TO FAMILIES AND CHILDREN".

(b) Title VI of such Act is amended by inserting immediately before section 601 the following:

"Part A—Services to the Aged, Blind, or Disabled"

(c) Title VI of such Act is further amended by adding at the end thereof the following new part:

"Part B—Services to Families and Children

"TRANSITIONAL SERVICES PROGRAM

"SEC. 611. (a) Until such time as a comprehensive program of services for families and children developed under section 612 is enacted and placed in effect, the Secretary shall furnish services to needy families and children in accordance with this section and with regulations prescribed under this section.

"(b) The services which the Secretary is to furnish under this section to families and children in need thereof shall include—

"(1) family services, child welfare services, family planning services, participation in foster care, rehabilitation services, emergency services and assistance, and any other services which were available or could have been made available under parts A and B of title IV immediately prior to their repeal by the law which added this section; and

"(2) such other services as the Secretary finds will strengthen family life, foster child development, and assist families and children in attaining or retaining capability for self-support and self-care.

"(c) Services and other assistance under this section shall be provided in such manner, in accordance with such standards, conditions, and procedures, and with such participation by States and State agencies as the Secretary determines will most effectively promote the objectives of this part.

"(d) As used in this section—

"(1) the term 'family services' means services to a family or any member thereof for the purpose of preserving, rehabilitating, reuniting, or strengthening the family, and such other services as will assist members of a family to attain or retain capability for maximum self-support and personal independence;

"(2) the term 'child welfare services' means social services which supplement, or substitute for, parental care and supervision for the purpose of (A) preventing or remedying, or assisting in the solution of problems which may result in, the neglect, abuse, exploitation, or delinquency of children, (B) protecting and caring for homeless, dependent, or neglected children, (C) protecting

and promoting the welfare of children of working mothers, and (D) otherwise protecting and promoting the welfare of children, including the strengthening of their own homes, or, where needed, the provision of adequate care of children away from their homes in foster care homes or day-care or other child-care facilities; and

"(3) the term 'emergency services and assistance' means social and other services, and assistance in any form (including money payments where necessary), provided on a temporary basis to avoid the destitution of a child, to provide living arrangements for a child, or to meet other urgent needs of a family or child in an emergency (including but not limited to assistance of the type described in section 406(e) (1) as in effect immediately prior to its repeal by the law which added this section).

"(e) Funds available to the Secretary for purposes of parts A and B of title IV as in effect immediately prior to their repeal by the law which added this section shall be available for the purpose of this part.

"COMPREHENSIVE SERVICES PROGRAM

"SEC. 612. Within one year after the effective date of this part, the Secretary shall develop and submit to the Congress a comprehensive program of services for families and children (combined or coordinated with the program of services to the aged, blind, or disabled under part A), together with (1) a report setting forth in detail the findings, data, statistics, and other information on the basis of which such program was developed, and (2) a draft of the legislative language necessary for the effective implementation of such program."

SEC. 204. OPTIONAL STATE SUPPLEMENTATION OF SSI BENEFITS.

Section 401(a) (2) of the Social Security Amendments of 1972 is amended—

- (1) by inserting "(A)" after "(2)";
- (2) by striking out "(A)", "(B)", "(i)", and "(ii)" in the matter following the introductory clause and inserting in lieu thereof "(i)", "(ii)", "(I)", and "(II)", respectively; and
- (3) by adding at the end thereof the following new subparagraphs:

"(B) If an individual receiving supplementary payments described in subparagraph (A) has a spouse who is a member of his or her family within the meaning of section 1614(g) of the Social Security Act but is not an aged, blind, or disabled individual, or there are one or more children who are members of his or her family within the meaning of such section 1614(g), paragraph (1) of this subsection shall not apply (for any fiscal year after the fiscal year 1976) with respect to any portion of any such supplementary payment in excess of the portion of such payment to which paragraph (1) would apply under subparagraph (A) of this paragraph if title XVI of the Social Security Act read as it did immediately before its amendment by section 202 of the Tax Credit and Allowance Act of 1974."

SEC. 205. SSI SUPPLEMENTS FOR CERTAIN DISABLED CHILDREN INCLUDED IN ABLE UNITS.

(a) In any case where—

(1) a child under the age of 18 received supplemental security income benefits for each month in the last quarter of the calendar year 1976 on the basis of disability;

(2) such child is included within a qualified unit for purposes of the allowance provided under subtitle I of the Internal Revenue Code of 1954 (relating to allowance for basic living expenses) in January 1977 in any month subsequent to December 1976 and prior to the month in which he or she attains age 18; and

(3) the sum of—

(A) the allowance paid to such unit for such subsequent month under such subtitle I,

(B) the tax credits allowed such unit with respect to such subsequent month under sections 42 and 6428 of such Code, and

(C) the other income of such unit for such subsequent month (as determined under subsection (b)(1) of this section),

is less than the sum of—

(D) the supplemental security income benefit paid to such child in December 1976,

(E) the State supplementary payment (if any) made to such child under section 1616 of the Social Security Act for December 1976,

(F) an amount equal to 80 percent of the bonus value of food stamps (as defined in section 402(d) of the Social Security Act), and

(G) the other income of such unit for December 1976 (as determined under subsection (c),

the Secretary of Health, Education, and Welfare shall make a special supplementary payment to such qualified unit for such subsequent month in an amount equal to the difference between the sums referred to in paragraph (3).

(b) Special supplementary payments being made to any qualified unit under subsection (a) of this section shall terminate (if they have not previously terminated because of increases in family income or other changes in the circumstances creating entitlement to such payments) with the month preceding the month in which the child (referred to in such subsection) attains the age of 18.

(c) The determinations necessary for purposes of subsection (a) (3) (G) shall be made and published by the Secretary of Health, Education, and Welfare during the calendar quarter beginning October 1, 1976.

SEC. 206. ADDITIONAL TECHNICAL AND CONFORMING AMENDMENTS AND TRANSITIONAL PROVISIONS.

The Secretary of Health, Education, and Welfare shall, as soon as practicable after the date of the enactment of this Act but in any event not later than July 1, 1975 submit to the House of Representatives and the Senate a draft of any technical and conforming changes in the

Social Security Act and other laws which may be necessary to reflect the changes in substantive provisions of law made by this title including any special provisions which may be necessary to assure an orderly transition from existing programs to the new or modified programs established by this title.

SEC. 207. EFFECTIVE DATES.

Except as specifically otherwise indicated, this title and the amendments made by this title shall take effect January 1, 1977.

TITLE III—MISCELLANEOUS AND GENERAL PROVISIONS

SEC. 301. OPTIONAL STATE SUPPLEMENTATION OF ABLE UNITS AND SSI FAMILIES NOT OTHERWISE COVERED.

(a) If—

(1) any State makes cash payments on a regular basis, as assistance based on need in supplementation of allowances under subtitle I of the Internal Revenue Code of 1954 (relating to allowance for basic living expenses) or in supplementation of benefits under title XVI of the Social Security Act, to—

(A) families which constitute qualified units for purposes of the allowance under such subtitle I but which are not eligible for supplementation under title IV of the Social Security Act (as amended by section 201 of this Act), or

(B) families receiving supplemental security income benefits under title XVI of the Social Security Act which include (within the meaning of section 1614(g) of such Act) a spouse who is not an aged, blind, or disabled individual or one or more children but which are not eligible for supplementation under such title IV, and

(2) the amount of such cash payment to any family is reduced on account of earned income of family members, or (in the case of payments in supplementation of allowances under such subtitle I) on account of unearned income of family members (excluding income from sources listed in section 9804(a)(3) of the Internal Revenue Code of 1954), or both, at a rate which results in a net reduction in the family's allowance under such subtitle I or its supplemental security income benefit, plus such cash payment, in an amount exceeding 60 percent of the amount of any such earned income plus (in the case of payments in supplementation of allowances under such subtitle I) 80 percent of the amount of any such unearned income,

then the total of such cash payment shall be included as an allowance offset under section 9804 of the Internal Revenue Code of 1954 or counted as income under section 1612 of the Social Security Act for supplemental security income benefit purposes.

(b) The Secretary of Health, Education, and Welfare shall prescribe such regulations, and conduct such monitoring and periodic examination of State supplementation programs, as may be necessary to assure compliance with the requirements of subsection (a), and shall from time to time report thereon to the Secretary of the Treasury or his delegate.

SEC. 302. PROHIBITION AGAINST FEDERAL ASSISTANCE TO CHILD-CARE FACILITIES IMPOSING INCOME-RELATED FEES.

Notwithstanding any other provision of law, no child care center or other child-care facility which is receiving Federal assistance in any form shall impose fees (for the services it provides) which are related in any way to the income of the recipients or beneficiaries of such services or to the income of any other persons.

SEC. 303. AMENDMENTS AND REPEALS OF OTHER LAWS.

(a) (1) The Food Stamp Act of 1964 is repealed.

(2) Notwithstanding any other provisions of law, no funds otherwise available for the purpose of carrying out the food distribution program for families under section 32 of Public Law 74-320 or section 416 of the Act of October 31, 1949, or for the purpose of carrying out a commodity distribution or domestic food assistance program under any other law, shall be utilized for such purpose on or after January 1, 1977.

(b) The Act of November 2, 1921 (25 U.S.C. 13), is amended—

(1) by inserting “, subject to section 2” after “education” in the first item following the colon; and

(2) by adding at the end thereof the following new section:

“SEC. 2. (a) On and after January 1, 1977, the Bureau of Indian Affairs shall not provide any aid or assistance based on need to any individual or family except as required or permitted by the succeeding provisions of this section.

“(b) (1) The Bureau shall make supplemental payments for periods after December 1976, in amounts determined under paragraph (2) of this subsection, to individuals and families who received aid or assistance under the first section of this Act for each month in the last quarter of the calendar year 1976, and whose allowance for basic living expenses under subtitle I of the Internal Revenue Code of 1954 or supplemental security income benefit under title XVI of the Social Security Act (as provided by title I or II of the Tax Credits and Allowances Act of 1974) is lower in amount than the aid or assistance so received for December 1976.

“(2) The supplemental payment to any individual or family for any month under paragraph (1) shall be in an amount equal to the difference (on a monthly basis) between the aid or assistance received by such individual or family under the first section of this Act for December 1976 and the allowance for basic living expenses or supplemental security income benefit to which such individual or family is entitled for the month involved, and, if such individual or family received food stamps under the Food Stamp Act of 1964 for December 1976, shall in any event include an amount equal to 80 percent of the bonus value of such food stamps.

“(3) As used in paragraph (2), the term ‘bonus value of food stamps’ with respect to any individual or family means (A) the face value of the coupon allotment which was provided to such individual’s or family’s household under the Food Stamp Act of 1964 for December 1976, reduced by (B) the charge which such household paid for such allotment.

“(c) The Bureau may make supplemental payments to Indians and Indian families who are not included within subsection (b) but who

reside in States which make payments to non-Indian individuals and families to supplement their allowances for basic living expenses under subtitle I of the Internal Revenue Code of 1954 or their supplemental security income benefits under title XVI of the Social Security Act. The amount of any supplemental payment to an Indian or Indian family under this subsection shall not exceed the amount of the supplemental payment which the State would make to a non-Indian individual or family in the same situation.

"(d) The Bureau may continue (after 1976) to provide financial assistance based on need under the first section of this Act to meet emergency situations (as determined by the Bureau), but no such assistance shall be provided to any individual or family for more than three months during any calendar year."

(c) (1) Section 2(b) of Public Law 87-510 (22 U.S.C. 2601(b)) is amended by adding at the end thereof (after and below paragraph (6)) the following new sentence: "Notwithstanding any other provision of this Act, no financial or other assistance shall be provided under this subsection to any refugee who has been lawfully admitted to the United States for permanent residence."

(2) Section 2(b) of Public Law 87-510 is further amended by inserting after "necessary from time to time" in the matter preceding paragraph (1) the following: "(subject to the last sentence of this subsection)".

SEC. 304. GARNISHMENT AND SIMILAR PROCEEDINGS TO MEET COURT-ORDERED ALIMONY, CHILD-SUPPORT, AND RENT OBLIGATIONS.

Notwithstanding any other provision of law, any moneys due from and payable by the United States or any agency or instrumentality thereof to any individual (including remuneration for civilian employment, military pay, allowances for basic living expenses, and benefits, aid, and assistance of any kind) shall be subject, in like manner as if the United States were a private person, to garnishment, attachment, or other legal process brought for the enforcement against such individual of his legal obligation (decreed by a court of competent jurisdiction) to provide child support or make alimony payments or to make payments of rent under a valid lease of real property.

SEC. 305. TECHNICAL AND MISCELLANEOUS PROVISIONS.

(a) Section 1101(a) (1) of the Social Security Act is amended by striking out "titles IV, V, VII, XI, and XIV" and inserting in lieu thereof "title XIV", and by striking out the second sentence.

(b) The following provisions of such Act are repealed:

(1) Titles I, X, XIV, and XVI (relating to State plans for aid or assistance).

(2) Section 705.

(3) Sections 1101(a) (8), 1108, 1109, 1111, 1118, and 1119.

(c) (1) Section 1115 of such Act is repealed.

(2) (A) If any State has any experimental, pilot, or demonstration project (referred to in section 1115 of the Social Security Act)—

(i) which (prior to the effective date of title II of the Tax Credits and Allowances Act of 1974) has been approved by the Secretary of Health, Education, and Welfare (hereinafter in this paragraph referred to as the "Secretary"), for a period which ends on or after such date as being a project with respect to which

the authority conferred upon him by subsection (a) or (b) of such section 1115 will be exercised, and

(ii) with respect to the costs of which Federal financial participation would (except for the provisions of this paragraph or section 11 of Public Law 93-233) be denied or reduced on account of the enactment of paragraph (1) of this subsection,

then, for any period (after the effective date of title II of the Tax Credits and Allowances Act of 1974) with respect to which such project is approved by the Secretary, Federal financial participation in the costs of such project shall be continued in like manner as if—

(iii) such title II had not been enacted, and

(iv) such State continued to have in effect the applicable State plan.

(B) With respect to individuals—

(i) who are participants in any project to which the provisions of subparagraph (A) are applicable, and

(ii) with respect to whom supplemental security income benefits are (or would, except for their participation in such project, be) payable under title XVI of the Social Security Act,

the Secretary may waive such requirements of title XVI of such Act (as enacted by section 301 of the Social Security Amendments of 1972) to such extent as he determines to be necessary to the successful operation of such project.

(C) In the case of any State which has entered into an agreement with the Secretary under section 1616 of the Social Security Act (or which is deemed, under section 212(d) of Public Law 93-66, to have entered into such an agreement), then, of the costs of any project of such State with respect to which there is (solely by reason of the provisions of subparagraph (A)) Federal financial participation, the non-Federal share thereof—

(i) shall be paid, from time to time, to such State by the Secretary, and

(ii) shall, for purposes of section 1616(d) of the Social Security Act and section 401 of the Social Security Amendments of 1972, be treated as if it constituted supplementary payments made by the Secretary on behalf of such State pursuant to such agreement.

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- Part 1. Mar. 20, 1972, Washington, D.C.; and Apr. 11, 12, and 13, 1972, New York, N.Y.
Part 2. May 3, 4, and 5, 1972, Detroit, Mich.
Part 3. June 6, 7, and 8, 1972, Atlanta, Ga.

Other Hearings

Open-Ended Federal Matching of State Social Service Expenditure Authorized Under the Public Assistance Titles of the Social Security Act, Sept. 12, 13, and 14, 1972, Washington, D.C.

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